

NATIONAL MONETARY COMMISSION

German Bank Inquiry of 1908

Stenographic Reports

Proceedings of the Entire Commis-
sion on Points I to V of the
Question Sheet



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MEMBERS.

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Fischer, Ernst, Kommerzienrat, Privatier, chairman of the Chamber of Commerce, Reutlingen.

Von Gamp-Massaunen, Freiherr, Wirklicher Geheimer Ober-Regierungsrat, Member of the Reichstag and of the Prussian House of Delegates, Hebron-Damnitz, Kreis Stolp, and Massaunen, Kreis Gerdanen.

Gontard, Friedrich, manufacturer (Gontard & Henny), Leutzsch near Leipzig.

Heiligenstadt, Dr. Carl, president of the Prussian Central-Genossenschaftskasse, Berlin.

Kaempf, Johannes, Stadtältester, president of the German Handelstag; president of the deans of the merchants' association of Berlin; vice-president of the Reichstag, Berlin.

Von Kanitz, Count, Chamberlain, captain of cavalry, retired; Member of the Reichstag and of the Prussian House of Delegates, Podangen, near Tüngen (East Prussia).

Lexis, Dr. W., Geheimer Ober-Regierungsrat, professor of political sciences in the University of Göttingen.

Mommsen, Karl, assistant judge, retired, director of the Mitteldeutsche Creditbank, Member of the Reichstag, Berlin.

Müller, Richard, manufacturer, Stadtrat, Member of the Reichstag, Berlin.

Peter, Karl, director of the Vereinsbank, Karlsruhe (Baden).

Raab, Friedrich, porcelain painter, Member of the Reichstag, Hamburg.

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- Riesser, Dr. Jakob**, Geheimer Justizrat, honorary professor in the University of Berlin, Berlin.
- Roland-Lücke, Ludwig**, landed proprietor, formerly director of the Deutsche Bank, Sonnenburg near Freienwalde on the Oder.
- Schinckel, Max**, chairman of the Hamburg Chamber of Commerce, partner in the Norddeutsche Bank in Hamburg, partner and director in the Diskonto-Gesellschaft in Berlin, Hamburg.
- Schmidt, Dr. A.**, member of the directorate of the Friedrich Krupp joint-stock company, Essen on the Ruhr.
- Singer, Paul**, Privatier, member of the city council, Member of the Reichstag, Berlin.
- Ströll, Dr. Moritz**, director of the Bayerische Notenbank, Munich.
- Wachler, Dr. Paul**, Ober-Bergrat, retired, member of the Herrenhaus, Berlin-Charlottenburg.
- Wagner, Dr. Adolph**, Geheimer Regierungsrat, professor of political sciences in the University of Berlin, Berlin.
- Von Wangenheim**, Freiherr, landed proprietor, chairman of the Bund der Landwirte, Klein-Spiegel, near Gross-Mellen, Regierungsbezirk Stettin.
- Weber, Dr. August**, director of the Löbauer Bank, Member of the Reichstag, Löbau (Saxony).

LIST OF REPRESENTATIVES OF THE IMPERIAL
GOVERNMENT AND THE FEDERATED
GOVERNMENTS.



From the IMPERIAL MINISTRY OF THE INTERIOR:

Müller, Geheimer Ober-Regierungsrat, vortragender Rat.

Dr. Fastenau, Königlich Preussischer Gerichtsassessor, kommissorischer Hilfsarbeiter.

From the IMPERIAL TREASURY:

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From the REICHSBANK DIREKTORIUM:

Dr. von Lumm, Geheimer Finanzrat, member of the Reichsbank direktorium.

From PRUSSIA:

From the Ministry of Finance—

Dickhuth, Geheimer Finanzrat, vortragender Rat.

Busch, Geheimer Finanzrat, vortragender Rat.

From the Ministry of Commerce and Industry—

Dr. Richter, under secretary of state.

Dr. Göppert, Geheimer Regierungsrat, vortragender Rat.

From the Ministry of Agriculture, Public Lands, and Forests—

Von Falkenhausen, Freiherr, Geheimer Regierungsrat, vortragender Rat.

Von Massenkoch, Freiherr, Geheimer Regierungsrat, vortragender Rat.

From BAVARIA:

Von Burkhard, Königlich Bayerischer Staatsrat und Ministerialdirektor, plenipotentiary to the Bundesrat.

Meinel, Königlich Bayerischer Geheimer Legationsrat in the Ministry of the Royal House and of the Interior.

From the KINGDOM OF SAXONY:

Härtig, Königlich Sächsischer Geheimer Finanzrat, deputy plenipotentiary to the Bundesrat.

Steglich, Königlich Sächsischer Geheimer Regierungsrat, vortragender Rat in the Ministry of the Interior.

From WÜRTTEMBERG:

Von Schicker, Excellenz, Königlich Württembergischer Staatsrat, deputy plenipotentiary to the Bundesrat.

From BADEN:

Weingärtner, Grossherzoglich Badischer Ministerialdirektor, Geheimer Ober-Regierungsrat.

From HAMBURG:

Sthamer, Senator.

QUESTION SHEET FOR THE HEARINGS OF THE EXPERTS.

[Made the basis of the proceedings of the entire Commission.]



I.—Is an increase of the capital of the Reichsbank desirable? If so, in what measure?

What effect does an increase of the capital have upon the money market and the condition of the bank?

May it be assumed that it would have a permanent influence on the determination of the rate of discount?

Would a strengthening of the surplus be preferable to an increase of the basic capital?

II.—Is it desirable that the tax-free note contingent be increased? If so, in what measure?

What advantages are to be expected from such an increase?

May it be assumed (and if so, why) that it would have an influence on the determination of the rate of discount?

III.—What means are available to the Reichsbank for promoting the drawing of gold from foreign countries, and for obstructing the outflow of gold to foreign countries?

A.—How may the importation of gold be effectually promoted? By suitable management of the discount policy? By development of the foreign exchange business? By the granting of advances free of interest or similar methods of facilitating gold importations?

B.—What are the causes of an outflow of gold to foreign countries, and by what means may it be prevented?

What is the nature of the so-called premium policy, under what conditions is it applicable, and how does it work?

IV.—Is it desirable to endeavor to bring about an increase of the cash holdings of the Reichsbank out of the channels of domestic trade?

A.—By conferring upon the notes of the Reichsbank the quality of legal tender?

Would such a measure be to the interest of general business?

B.—By an increased issue of 50-mark and 20-mark Reichsbank notes?

C.—By diminishing the need of circulating media through extension and intensification of the deposit and transfer (*giro*) check and clearing system?

What measures are to be taken to this end? ("Reichs-clearing?")

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In this connection, do the following seem effective and desirable?

1. A raising of the minimum for noninterest-bearing credit balances in the deposit business of the Reichsbank.
2. The acceptance of interest-bearing deposits by the Reichsbank.
3. The purchase of checks by the Reichsbank.

V.—Is it desirable to take into consideration a diminution of the demands on the Reichsbank:

A.—Through a diminution of the credit-demands of business, especially at the quarterly periods?

What measures might be taken to cause a spreading out of the quarterly requirements by altering the time of payments (mortgage-payments, salaries, rents) which traditionally fall due on the first day of the quarter?

Would it be desirable to enhance the cost of obtaining money from the Reichsbank on collateral security, at the close of the quarter, by increasing the number of days for which interest is charged?

B.—Through a diminution of the credit-demands of the Imperial Government? Is it desirable for this purpose—

1. To endeavor to increase the working resources of the Imperial Treasury?
2. To change the methods in use in the giving out of Imperial Treasury bills? And if so, how?

VI.^a—Does it seem warranted in the public interest (and upon what grounds?) to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings?

What measures to this end should be taken under consideration, and what effects might be expected from them?

In particular, would a provision of law be desirable that should impose on those institutions (banks, cooperative institutions, and savings banks) that undertake to receive deposits the obligation—

1. With reference to the covering of these moneys, to subject themselves to fixed regulations guaranteeing not only security but also fluidity? If so, what should these regulations be?
2. To make and publish, within definite periods of time, detailed balance sheets of prescribed forms? If so, what should those periods be? (Yearly, half-yearly, quarterly, monthly?) And how should the forms of the balance sheets be constructed so as to serve the purpose in view?

^a The conclusive consideration of question VI was postponed, in pursuance of a resolution adopted by the Commission October 15, 1908. (See pp. 686-694 of the Proceedings.)

BANK INQUIRY OF 1908.

FRIDAY, JUNE 26, 1908—12.10 p. m.

Chairman HAVENSTEIN, *President of the Reichsbank direktorium*:

GENTLEMEN: I bid the members of the commission of inquiry welcome to the continuation of the proceedings, and open the session by thanking you for the full attendance and expressing the hope that our joint effort may have a beneficial and successful issue.

Permit me, first of all, to put on record the list of those present. The gentlemen who have appeared are Freiherr von Cetto-Reichertshausen, Fischel, Fischer, Freiherr von Gamp-Massaunen, Gontard, Doctor Heiligenstadt, Kaempf, Count von Kanitz, Doctor Lexis, Mommsen, Müller (Fulda), Peter, Raab, Doctor Riesser, Roland-Lücke, Schinckel, Doctor Schmidt, Doctor Ströll, Doctor Wachler, Doctor Wagner, Freiherr von Wangenheim, Doctor Weber.

Of the representatives of the federated governments, Herr Weingärtner, ministerial director, excuses his absence on the score of being obliged to attend the sittings of the Baden Landtag.

Gentlemen, in order to shorten our debate, I suggest that each one—I declared already at the opening that the Bundesrat attach special importance to obtaining the opinions of all the gentlemen composing this body of experts—be good enough, without our putting the separate

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questions to a formal vote, to submit his views in a systematic statement. I presume that this will entail a debate, the course of which we must await.

Freiherr VON GAMP-MASSAUNEN (on the order of the day). The chairman pointed out, when we decided upon meeting to-day, that to-day's proceedings would serve principally to acquaint the Bundesrat with the bill which is to be drawn up and presented to us in the Reichstag. If the administration of the Empire is satisfied with this brief explanation at this stage of the proceedings, I, for my part, would offer no objection; I would, however, emphasize the point that we must have command of somewhat more abundant material for the deliberations in the Reichstag, in order to be able to take a position on this question.

The CHAIRMAN. I have already remarked that each gentleman might give his views in a systematic statement, and that perhaps this will entail a debate. To what extent the material for such debate will be abundant will depend upon the gentlemen.

If no one wishes to say anything further on the order of the day, I grant Freiherr von Gamp the floor to speak upon the question.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, the consideration of the two questions "Is an increase of the capital of the Reichsbank to be recommended?" and "Is an increase of the contingent of notes exempt from taxation to be recommended?" should in my opinion have been preceded by a discussion of general conditions, particularly of the causes of the money and financial crisis

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which has prevailed for a number of years and still continues. For only then could an understanding have been reached as to the means of preventing a recurrence of the critical situation. I say a determination of the causes should have been arrived at, and in this connection I wish to point out that the representatives of the banks attributed entirely too much weight to the overdevelopment of our industry as a factor in bringing about the crisis; and this point of view was largely represented to the Reichstag by the management of the Reichsbank as well. I am of the opinion that this is an error, and that this error must before all else be dissipated; for we must first determine the causes of the crisis, so as to make it possible to attain an agreement as to the means of preventing the recurrence of such a crisis.

Gentlemen, there are two facts which controvert the view that industry and its development is the chief offender. It is a thing well known, and, moreover, brought to our immediate notice by a compilation presented to us by Director Mueller, of the Dresdner Bank, that the critical periods for the Reichsbank were those from September 15 to 30 and from December 15 to 31. Now, I have made a compilation from the last annual report of the Reichsbank, from which it appears that precisely those bank establishments that receive a preponderance of industrial bills did not experience their greatest stress in the critical days of September 15 to 30 or December 15 to 31. Of the banking firms that I reckon as particularly industrial, Aachen reached its highest credit on May 15; Augsburg and Barmen, January 7; Bielefeld, December 14; Bochum, November 7;

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Chemnitz, October 7; Crefeld, December 31; Dortmund, October 31; Duisburg, January 7; Düsseldorf, December 23; Elberfeld and Essen, December 23; Fulda and Gera, October 31; Gleiwitz and Glogau, November 7; Hamm, November 15; Hannover, December 31; Königsberg, October 23; Leipzig, October 31; Magdeburg, November 7; Mülhausen, November 15; Mülheim (Ruhr), October 31; Nürnberg, September 29; Remscheid, November 15.

It appears, accordingly, that of these great industrial points, Nürnberg alone falls into the critical period of September 15 to 30, and only Crefeld, Düsseldorf, Elberfeld, Essen, and Hannover into that of December 15 to 31.

As against this, the great commercial points which reached their highest need of credit in the periods of September 15 to 30 and December 15 to 31 are:

SEPTEMBER 15 TO 30.

	Lowest assets.	Highest assets.
	<i>Marks.</i>	<i>Marks.</i>
Braunschweig	6,906,000,000	13,014,000,000
Breslau	6,408,000,000	16,870,000,000
Frankfurt, a. M.	4,195,000,000	12,760,000,000
	17,509,000,000	42,644,000,000

DECEMBER 15 TO 31.

	<i>Marks.</i>	<i>Marks.</i>
Altona	4,183,000,000	11,164,000,000
Bremen	1,033,000,000	16,408,000,000
Cassel	8,175,000,000	13,779,000,000
Charlottenburg (Berlin)	2,300,000,000	4,518,000,000
Cöln	9,355,000,000	18,309,000,000
Darmstadt	2,889,000,000	8,081,000,000
Dresden	5,570,000,000	11,251,000,000
Hamburg	3,457,000,000	24,008,000,000
Karlsruhe	4,958,000,000	9,182,000,000
Kiel	13,427,000,000	27,225,000,000
München	6,959,000,000	18,417,000,000
Berlin	15,094,000,000	93,388,000,000
	77,400,000,000	255,730,000,000

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A rise of over 300 per cent, therefore, occurred in these places, from which it follows that it was not industry in especial that claimed the money supply of the Reichsbank, but that it was, above all, the commercial centers.

I find a second reason against the view that industry was chiefly responsible for the crisis, in an assertion of my own, that industry has in the last decade laid up a very considerable surplus, and has become to a very material degree a credit giver in place of a credit receiver. I permitted myself to cite one or two examples of this, whereupon Herr Schwabach thought to instruct me by saying that these were quite isolated instances, which accidentally came under my personal notice. Following him, Herr Steller, the manager of one of the greatest industrial works of Rhenish Westphalia, last year showed that according to last year's balance sheet the following industrial bank credits existed:

	Marks.
14 mines.....	45,000,000
15 chemical factories.....	23,700,000
21 industrial works and foundries.....	75,000,000
28 machine shops.....	7,500,000

Seventy-eight companies therefore had a bank credit of 151,000,000. Herr Steller explains that the balances of these companies were not specially selected by him, but that he took them at random, while I must confess that he chose rather happily and perhaps not quite without design. But, gentlemen, the fact that 78 joint-stock companies alone possessed 151,000,000 does, nevertheless, very substantially support my assertion. I have since examined a whole series of bank statements and found that the status of many joint-stock companies has very materially improved in the last decade. In my opinion

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there can be no doubt that the joint-stock companies laid up a considerable surplus in the prosperous years—nay, suits were repeatedly instituted against them, the stockholders objecting to the balance because the surplus was so great.

In view of the limited importance of to-day's proceedings, I shall not discuss the point further. But I would request the management of the Reichsbank and the Imperial Ministry of the Interior, at any rate, to place at our disposal, for the deliberations in the Reichstag, more detailed information upon these two questions, in order that we may see into the matter clearly. I believe that it is not so very difficult to determine, through the Reichsbank offices, what bills were presented in the period of September 15–30 of the present year, likewise; who was the drawer, the acceptor, and the presenter of those bills. I do not wish to know the names, I do not wish to cause any indiscretion; I only wish to know whether the person concerned was a manufacturer of machines, or a dealer in wool, or a banker, in order to establish by this means which were indeed the interests that were the chief besiegers of the Reichsbank at the critical period.

Secondly, I would ask that it be determined, particularly in the case of the larger joint-stock companies, having a share capital of over 3,000,000, what sort of change took place in the balances from 1900 to 1907, and especially who constituted the creditors and debtors, and particularly how the bank credit was constituted.

(An interruption.)

I am just informed that this material is at hand. I have seen no such statistics based upon official information.

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I would ask, if, as I am aware is the case, numerous private contributions are to be submitted, that these private results be verified, so that we may regard them as unexceptionable material. I should have no objection to the year 1905 being also brought in for comparison.

It would further be desirable—on this point, too, private publications are at hand, but I would ask that their correctness be tested—to determine the aggregate of the loans that were placed upon the market from 1900 to 1907, in the Empire as well as in the separate States, municipalities, state institutions, etc.

Gentlemen, as far as the first question is concerned—I have thus far made a few general observations, in order to show the reasons why I desire more abundant material for the Reichstag—"Is an increase of the capital of the Reichsbank necessary?" I would first of all assert that, as regards the duties and functions of the Reichsbank, unanimity prevails upon the following points: First, that it is its duty and its business, first and foremost, to maintain the standard and to secure the circulation of money, and that satisfying the needs of credit is only a secondary function of the Reichsbank.

Secondly, I think I can establish that it is the unanimous opinion of the commission that all business interests, industry, agriculture, trade, small concerns, have a claim to be treated on a footing of equality, and that no preference, particularly not to banks, shall be shown. I take it for granted, of course, that as for the rest, the conditions determined on by the Reichsbank will be carried out.

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Thirdly, I would lay it down that the Reichsbank may furnish credit for such needs only as arise from a legitimate, that is, a justified and necessary transaction of commerce, manufactures, agriculture, and minor trades; that, on the other hand, it has not the function and accordingly not the right to furnish credit for the purchase of land, for speculation—that is, for the purchase of stocks—for the payment of wages to laborers, etc.

At this point I would mention the exceptional position of the cooperative institutions (*Genossenschaften*). I am of the opinion that it is a transaction falling into the category of legitimate credit if a cooperative institution takes money from the Reichsbank in order to enable it to pay for the raw material which has been delivered to it. If, then, a cooperative institution, a starch factory, say, is called upon to pay for its supply of potatoes, this would, in my judgment, come under legitimate credit for goods, because a joint stock company or a private individual who carries on such a factory would likewise have to pay for the potatoes. Here it is only the form of the cooperative institution that alters the case somewhat.

Gentlemen, whether unauthorized credit, departing from these principles, is given, has also been discussed; but I do not wish to go further into this question. The Reichsbank has indeed conceded that deviations have occurred here and there, but maintains that on the other hand it acted with energy, but discreetly, and with due regard to circumstances. I can only say that I subscribe to this statement.

I would further declare, in order to remove differences of opinion, that I see nothing against the Reichsbank

being authorized in case of a party seeking legitimate credit from it and not furnishing absolute security, to procure such security by guaranties, by mortgages, etc. I only wanted to emphasize this because Herr Geheimrat Mueller views the matter apparently from another standpoint, and believes that all claims upon the Reichsbank not absolutely secure in themselves are outside of its sphere of business and should be rejected. Director Mueller of the Dresdner Bank, with whom I shall have frequent occasion to occupy myself, because he has most openly and unqualifiedly represented the interests of the great banks, advocates the view that the regular credits of the Reichsbank should be lowered by from 200,000,000 to 300,000,000 in order that it may have available means at the difficult periods, under all circumstances, to satisfy the demands made upon it for the discounting of short-time bills and the making of loans on collateral. I maintain the opposite view. I am of the opinion that it is the business and the duty of the Reichsbank to lower the demands upon it at critical periods as much as possible in order that it may be in a position to satisfy in non-critical periods, in the broadest possible field, the credit requirements of those engaged in the conduct of business. I am not thinking here, as Herr Geheimrat Mueller indicated, of an extension by preference of agricultural credit. Through the Preussenkasse, agriculture has to a great extent attained a position in which it can satisfy its credit requirements, but I must emphasize the demand that it shall enjoy absolutely the same rights as the other branches of business, and that it is self-evidently just as much the duty of the Reichsbank to accept a bill from me if, for

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instance, I purchase a locomobile, as it is to accept the commercial paper of a great bank, presupposing that the required security is furnished. I claim parity of treatment for agriculture, without wishing it to be accorded special preference.

Now, Herr Geheimrat Mueller desires at the so-called difficult periods the unlimited acceptance of short-term bills and loans on securities. He has justly pointed out that these short-term credits have in many respects not the character of credits, but of regulation of the circulation of money. On this one point he has converted me. I openly acknowledge that, at the time, I did not in the Reichstag attach enough weight to this point. So far as short-term loans are concerned which do not involve the satisfying of credit, but only the adjustment of payments, I regard his standpoint justifiable. In the case of bills, one can recognize this; in the case of loans on collateral, it is more difficult to do so. The Reichsbank establishment that would recognize this must be a specially shrewd one. But I do not desire to enter into questions of detail; I only wish to hold fast to the principle. In my judgment the acceptance of these short-term bills can only be properly demanded when the condition of the Reichsbank permits it without a rise of the rate of discount.

Director Mueller says that the Reichsbank must restrict long-term bills, and, on the other hand, must be obliged, under any circumstances, to grant credit upon short-term bills and securities; if it did not do the latter, a great calamity would be the result. Herr Mueller

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remarked further: "Where does it stand written that the Reichsbank throughout the whole year discounts every good long-term bill?" To this I reply: "Very good; but where does it stand written that the Reichsbank is obliged to discount every good short-term bill?" Neither the one nor the other stands written—that is, the Reichsbank must judge according to the particular circumstances of the case whether in that special instance it can extend its credit without injuring rightful interests; and, above all, there must be impartial treatment, and under no circumstances must banks be favored in this respect. The view held in industrial circles is that as long as the means of the Reichsbank permit, it is, indeed, obliged to accept every good bill throughout the year, and that it should and must exercise restriction only if its condition makes a restriction of credit necessary; but that even then all interests should be equally affected by such restriction.

Now, what is meant by a short-term and a long-term bill? I have gathered from the compilation in the business report of the Reichsbank that bills have very different periods to run—a thing that goes without saying—and that Berlin, if not the most favored, is among the most favored localities in this respect, in that the average time is thirty-one days. Other places, however, are given; for example, Aachen, where the average time is seventeen days; Frankfurt, nineteen days; Hamburg, sixteen days, etc. In Berlin, too, therefore, there must be a large number of bills that run considerably longer than thirty-one days; otherwise

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there could not result an average of thirty-one days. If we consider that, especially at the difficult periods, bills of ten days are given, it follows that here, too, long-time bills are largely issued.

Now, Herr Geheimrat Mueller has not stated whether he means to say that a bill of fourteen days is a short-time one and anything beyond that a long-time one. I do not believe that he will care to make such a distinction. But he has not stated his view clearly and distinctly, in noting the distinction between short-time and long-time bills. I think that the long-time and short-time bills should not be treated differently in principle by the Reichsbank, unless the transactions in question do not bear the character of credit requisitions but of a settlement of obligations. If this distinction can not be made, all bills must be treated alike. The law demands this, and we demand of the Reichsbank that it should carry out the law with uniformity toward all.

The Bank of England discounts, to my knowledge, six and nine months' bills in international business.

(Contradiction.)

Mr. FISCHER. Not over ninety-five days.

FREIHERR VON GAMP-MASSAUNEN. Then it is the Bank of France.

(Renewed contradiction.)

I know that one of those banks years ago—I spoke to the former president of the Reichsbank upon the subject—issued bills of at least six months, in the colonial trade. I attach no importance, however, to the matter, since

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there is, I say, no distinction of principle between short-time and long-time bills; the acceptance of bills must in general be made to depend upon the condition of the market.

Gentlemen, it has been stated here that the circulation of notes has materially increased in the course of years. This I can not concede. In the year 1873 the total circulation amounted to 1,350,000,000, and in the year 1907—that is, thirty-four years later—it was 1,621,000,000, of which that of the Reichsbank was 1,479,000,000 and of the private banks 142,000,000. In the comparison of the individual years it is generally overlooked that the private banks had in 1873 a very considerable circulation of notes and that the Reichsbank has stepped into the place of those banks. If, then, we wish to make comparisons, we must compare the total number of private banks then in existence, and their notes, with those of the Reichsbank.

Gentlemen, if it should really be established that industry did especially tax the resources of the Reichsbank, I must still declare that all the experts agreed in thinking that industry must continue to expand if we wish to improve our balance of payments and balance of trade; we must, therefore, not only reckon with the fact of the increase of industrial credit, but must positively desire it and strive for it under all circumstances; for otherwise we shall not get out of our distressing condition.

Now, Director Mueller wishes the running credit of the Reichsbank to be lowered by from 200,000,000 to 300,000,000 marks. Herr Mueller speaks from the standpoint—I wish to express myself briefly—of the drainage

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principle. If the Reichsbank really wished to reject those credits, 200,000,000 to 300,000,000 would go to the banks. The banks would then, if I follow the conclusions of Herr Mueller, go to the Reichsbank and either diminish their credits or take this money from it in some other way, and the Reichsbank would advance this 200,000,000 to 300,000,000 in an indirect manner. This proposition of Director Mueller is irrational, then, from his standpoint. I do not share his point of view, as I shall soon explain.

If we must reckon with a lasting increase of credit needs, we must find means to help the Reichsbank, and here I ask: How can the Reichsbank procure such means? By raising the rate of discount it can attract money from abroad. But we have heard from Herr Mueller himself that this expedient may easily fail, and that it would, as a matter of fact, have failed last year, even if we had had a bank discount of 10 per cent.

The Reichsbank may, furthermore, increase its deposits. Director Gwinner has expressed his approval of the increase of the deposits, but only under the supposition that the Reichsbank shall pay interest. In itself I am not opposed to such a proceeding. If the Reichsbank thinks it can accomplish it, I should have no objection to it. But I would call attention to the fact that the increase of the deposits does not furnish absolute security, because the deposits may be withdrawn at any time, and in critical times would undoubtedly be withdrawn. If, then, this method is followed, it will be a help, and if such help is applied to a certain extent, the capital of the

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Reichsbank will not have to be increased to the degree that would otherwise have been necessary.

The surest way, however, to attain an improvement of the condition of the Reichsbank is by increase of its capital. I consider the drainage principle erroneous; were it correct, no considerable loan could be placed in the market without withdrawing the gold from the Reichsbank. Whoever gives out a loan of 50,000,000, then, could not procure this 50,000,000 otherwise than by having the banks go to the Reichsbank and diminish their credits there or raise money on securities, etc. The money, then, would have to be taken from the Reichsbank. If a foreign loan were to be issued to-day, that would by all means be the only way to procure the cash. In ordinary times, however, business has hundreds of ways of obtaining money, without making direct demands upon the Reichsbank. I need not enumerate these ways; one man sells "Americans," another gives up contemplated improvements, a third sells other valuables, a fourth has assets that are lying idle—in short, this so-called drainage principle is based upon a false conception.

I should think, therefore, that the only effective means of providing for an assured improvement of the condition of the Reichsbank is by the increase of its capital, just as every joint-stock company improves its condition most surely by increasing its share capital, and not by assuming a bonded debt. That is the method adopted by the sound joint-stock companies. I believe, further, that if this increase, which should be reckoned at 70,000,000,

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takes place in a series of years, say from four to five years, and the times of payment have been suitably fixed upon, this augmentation of capital may at the same time be effected by the paying in of gold that is withdrawn from trade. We have heard from the representatives of the banks that, last year, in order to spare the Reichsbank, they withdrew from 70,000,000 to 80,000,000 in gold from trade. What they were then able to do they can do to-day likewise. If, namely, the shares are given out in small denominations and are placed among the general public through the post-offices, etc., it will be possible to receive the shares back, at least partially, in gold.

It has been pointed out that the Bank of England and the Bank of France have not a great amount of share capital. I am of the opinion that the conditions of those banks can not be compared with those of the Reichsbank. Certainly, the English Bank gave a great part of its capital to the State, and likewise the Bank of France. But has not the Reichsbank done the same? In January of the current year the Reichsbank took over from the Government treasury bills amounting to 200,000,000 marks, keeping them at times in its portfolio; it gave more to the Government than its aggregate share capital; and, according to my recollection, at the time of the final statement of the Reichsbank, December 31 of last year, it still had, on the most critical day, treasury bills amounting to about 70,000,000. It put over a third of its capital, therefore, in the shape of credit, at the disposal of the Imperial Government. Besides, England is a country so rich in capital that no great demand is made upon the Bank of

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England anyway to procure credit, for the notes are generally more than covered. In England very little gold is in circulation and not much in the Bank either; and if Germany is liable to get into a position in which the gold is pumped out to the degree it is in England, then we are facing a grave and very gloomy future. England may allow itself this luxury; but with us, if the gold supply were withdrawn from trade to the extent it is in England, and we should then be obliged to discharge international obligations I do not know how we should go about it. It is possible for England, by its colossal holdings in the securities of all civilized countries, to procure gold everywhere and at all times; but we have in recent years disposed in great part of our best foreign loans, and overloaded ourselves with Americans. Besides, in times of difficulty the Bank of France always rushes to the rescue of the Bank of England by furnishing it gold, a thing that the German Bank can, of course, not reckon upon. I believe, consequently, that it would be the worst thing possible to take England as a model.

But in France, too, the conditions are different. There industry stagnates, so that to regard France as an example is not justified. Our industry must be developed further, our agriculture be made more intensive, and even the artisan class must be supplied with more capital. Thus we are obliged, under all circumstances, to place a considerably greater amount of bank credit at the disposal of business.

Now, as to the increase of the contingent of notes exempt from taxation. Seldom has a provision which is,

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perhaps, theoretically unobjectionable, resulted in such a fiasco.

The CHAIRMAN. That really pertains to the second question.

Freiherr VON GAMP-MASSAUNEN. I should wish, then, that the commission would express its opinion to the effect that the Reichsbank should increase its capital by about 70,000,000 marks.

The CHAIRMAN. May I ask that the question of the surplus be discussed?

Freiherr VON GAMP-MASSAUNEN. I hold that simultaneously with the increase of the primary capital a corresponding increase of the surplus must take place, since, according to the legal requirements, the premium would go to the surplus. I should object to increasing the surplus alone and not the primary capital, because the increase of the surplus would be accomplished quite preponderantly at the expense of the Government, while I consider it justifiable to effect the greater solvency of the Reichsbank by an increase in the amount of its own shares.

Doctor STRÖLL. In common with a great number of the experts, I am rather indifferent in regard to the enlargement of the capital of the Reichsbank. The potency and the carrying strength of the Reichsbank are determined by other factors than those of its capital. An augmentation of basic capital the Reichsbank does not need, and in general an augmentation of its working capital is likewise needless, because, under the assumption that it has the necessary coin in its hands, it possesses,

theoretically and practically, the inexhaustible horn of plenty of the right to issue notes.

Nor do I look forward to a permanent augmentation of the stock of gold, for the metal that flows into the bank on some wave of business—in this case it would be the payment for the new shares—does not signify. What alone does signify is the amount of specie the Reichsbank can permanently retain, and that, again, depends not upon its capital, but upon international conditions. Neither do I look forward to a lowering of the rate of interest through an increase of capital, for in all civilized countries the rate of interest depends upon factors other than any capital, no matter how vast, of any central bank.

It has also been said that the Reichsbank should increase its capital because other banks have greater capital. That argument is not a valid one, for capital plays a different rôle in other banks, particularly as regards basic capital, and the Reichsbank remains always the “bank of banks”—remains always the greatest German bank. I think I need hardly remind the commission that the Reichsbank has been obliged, in critical times, to come to the aid of many a proud bank of the first order.

It has further been said that the Reichsbank needs increased capital on account of its real estate holdings. This consideration is likewise not decisive, for if the Reichsbank has up to the present invested 60,000,000 in real estate I am of the opinion that the point of saturation has now been reached. The Reichsbank has established itself in all the larger places, and if it establishes itself at other points the erection of bank buildings will hardly be necessary.

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Altogether exaggerated, however, and shooting far beyond the mark, is the assertion frequently made, even by experts, that an increase of capital would not in any way fortify the position of the Reichsbank. Every bank becomes stronger and more potent by having capital added to that which it already possesses. I can not conceive how opinion can differ on this point. In what form such strengthening will manifest itself, that is the concern of the managers of the Reichsbank; but a strengthening, and a permanent strengthening, would be produced by an increase of capital. I say only that a strengthening so vital that it would tell essentially in the problems of the Reichsbank would not result. The position of the central bank as a financial power is not, in my judgment, decisively determined by its capital, whether somewhat smaller or somewhat greater.

Furthermore, I do not share the apprehension that if the capital of the Reichsbank and its own resources were to be increased the directors of the Reichsbank would be tempted to force business. This question gave rise to a rather expensive and, in part, heated and acrimonious discussion in the hearings of the experts. After the remarkably straightforward and thoroughly reassuring explanation of the president of the Reichsbank on this point, I believe that we may entirely eliminate this matter from our discussions. That individual blunders occur in an institution which has about 500 auxiliary establishments is a matter of course. I know from my own business experience how difficult it is to carry on a large number of subsidiary concerns in a uniform way. The main point is

that the general management when it discovers errors should remedy them, and evidently the Reichsbank sincerely desires to do that.

To my mind an enlargement of the bank's capital would recommend itself more with reference to a strengthening of its ability to make loans on collateral. As I have already indicated, I regard the Reichsbank's discounting capacity as fully sufficient, but its capacity to loan on collateral, on the contrary, as slight. I consider it adequate in normal times and in times of moderate strain, but not adequate in trying times. I am so thoroughly convinced, however, that in really trying times bank policies of an altogether extraordinary nature are necessary, that for this reason I regard it unnecessary to aim at increasing the capital of the Reichsbank in peaceful periods with a view to its capacity for loaning on collateral.

On the whole, I do not consider such an increase requisite. However, if it should be undertaken—a thing I should not advocate—it would have to be done on a considerable scale; otherwise it would produce no effect whatsoever.

If the Reichsbank wishes to strengthen its surplus, I consider that a *res interna*. An association of capital can never be too rich in surplus reserves, and I should think that fortifying the surplus would be useful from the standpoint of public economics. Naturally, the dividends would thereby be diminished and the share of the Government curtailed.

I would regard it as regrettable if an increase of capital were forced upon the Reichsbank on account of parlia-

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mentary considerations. I have known the direktorium of the Reichsbank for a generation as an administrative body remarkably sagacious and clear-sighted, one that very well understands its interests; it would be the best judge whether it does or does not require an increase of capital, and in this connection I would say *beneficia non obtruduntur*.

Doctor WACHLER. Gentlemen, I would express my position as regards Herr von Gamp's general remarks in very few words. It would certainly be interesting if we could establish definitely the causes that led to the crisis of 1906-7. But we have already been told that these causes are of so manifold a nature that it will be hard to establish exactly which of the various branches of business made the greatest demands on the resources of the Reichsbank, with a view to determining their degree of culpability in bringing about the money stringency. I share Herr von Gamp's view that industry, in spite of its doubtless very considerable development in recent years, was by no means the sole or the chief originator of the money stringency. If Herr von Gamp maintains that industry was only an inconsiderable factor in the money stringency of those years and supports his contention by the published balance sheets of the companies, I know from my own experience that just as the yearly balance sheets of the different companies vary, so does their bank balance vary greatly. Most of the companies usually have a minimum balance directly after a distribution of dividends, and then it rises until the close of the business year. The majority of the companies with which I am associated, and which terminate

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their business year on the 31st of December, always have on that date a very considerable balance, because they desire to provide the means of paying their dividends after December 31, and must accumulate a balance for that purpose. If then we ascertain from the statement of the 31st of December that a great many joint-stock companies had an extraordinarily large balance and wish to conclude from this that the industrial companies in general could therefore evidently not have made demands on credit, the conclusion, according to my view, would be fallacious. The same companies might at other periods—for instance, in August, September, October—have received even very considerable advances from their banks and have come into possession of any material balance only on the 31st of December. I mention this simply in order to say that all these statistics must be regarded not only according to their figures, but must be looked into upon all sides. They assume then an entirely different aspect; the conclusions drawn from pure statistical figures are not always entirely correct.

I agree with Freiherr von Gamp also upon the point that the first business of the Reichsbank is to regulate the monetary circulation, not to act as an institution for credit. I think he is right, too, in saying that, according to the intention of the law, the Reichsbank may and should nevertheless engage, in the second place, in credit business also. But it appears in practice—and I would state that I differ to that extent—that the credit business is, after all, a very important factor for the Reichsbank, inasmuch as the Reichsbank is and must be the reservoir for all the other bank establishments.

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Freiherr VON GAMP. Quite right!

Doctor WACHLER. I likewise coincide with Freiherr von Gamp's contention that no branches of business should be favored. But I would state in regard to Herr von Gamp's special observation that the banks likewise should have no preference; that, as appears from the information offered by the Reichsbank, it is for the banks that by far the greatest part of the discount business of the Reichsbank is done. And this is as it should be; otherwise we should reach a point where all branches of business would, contrary to the law which determines the Reichsbank's sphere of action, satisfy their credit requirements directly through the Reichsbank. Only then could statistics be compiled which would demonstrate that this or that branch of business had been particularly prominent in demands upon the Reichsbank. But, as I understand it, the credit banks are self-evidently—unless we consider the Reichsbank the primary credit institution, and that, in fact, it should not be—those that must satisfy the credit needs of all classes; and they are naturally those that must, more than any others, undertake the discounting of notes at the Reichsbank. From the actual statistical data we can not by any means draw the conclusion that the Reichsbank satisfies the credit needs of the banks preferentially. This assertion is frequently made in banking literature, as well as in the daily press, and in various gatherings, as a charge against the management of the Reichsbank, but it only exhibits a total misconception of the business activities of the credit banks as well as of the Reichsbank.

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Gentlemen, the language of the question that is laid before us here is, Is it *desirable* to increase the capital of the Reichsbank? From this it seems to me to follow that the representatives of the Government do not regard the question of the necessity of such an increase as under consideration, and that we really need not discuss whether such an increase of capital is actually *necessary*.

Now, it has been urged that the capital of 120 millions in the year 1876 was determined under conditions entirely different, as to population, business, and economic organization, from those prevailing to-day, and that as early as 1900 efforts were made to meet the circumstances, which had essentially changed in those respects, so that in 1901 an increase to 150,000,000 and in 1905 to 180,000,000 took place. In the last two years, however, it is further said the demands upon the Reichsbank have been so great that the strain on the bank has well nigh reached the limit of its capacity. An increase of the capital, therefore, and through this a strengthening of the position of the Reichsbank is desirable, it is urged, in order that it may maintain its ability to adequately satisfy the enlarged demands for credit necessitated by the steady increase of population, the extension of German industry, and the increase of German commercial and transportation business.

But as against this view the following essential objections are to be noted:

1. If the joint-stock banks have, in keeping with the expansion of their business, materially increased their capital in the last twenty years, it does not follow that a like necessity exists for the Reichsbank—a point to

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which Doctor Ströll has already called special attention. For with banks of issue it is the notes really and not the capital that constitute the working capital. As regards the use of the capital as a note reserve, for administrative purposes, or for loans on collateral, it is, in my judgment, likewise sufficient. Fifty-five millions are invested in bank buildings; 15,000,000 to 18,000,000 are annually expended for administration; the loans average from 85,000,000 to 98,000,000; so that with a note circulation of $1\frac{1}{2}$ billion the capital and the surplus of approximately 245,000,000 are sufficient and represent a surplus of over 10 per cent. In reference to the note circulation, however, even an increase of the capital by from 50,000,000 to 70,000,000 would hardly be decisive; and yet a still greater increase, by 100,000,000 or more, can certainly not be thought of. According to my view, then, the bank's capital is irrelevant to the question of working capital and sufficient for other purposes.

2. Since 1905, and particularly since 1906 and 1907, demands considerably greater than in the foregoing years have been made upon the Reichsbank, and the specie cover did drop, to be sure, to 37.3 per cent, with an average of 57 per cent, as against a minimum ratio of 49.7 per cent in 1899, 49.6 per cent in 1904, and 43.5 per cent in 1905. As against this covering, the following excess issues took place: End of November, 1906, 505,000,000 marks with the discount rate at 5 per cent; end of December, 1906, 572,000,000 with the discount rate at 7 per cent; end of September, 1907, 513,000,000 with the discount rate at $5\frac{1}{2}$ per cent; end of December, 1907, 625,900,000 with

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the discount rate at $7\frac{1}{2}$ per cent; then there followed, in January, 1908, a material falling off in excess issues, namely, 386,000,000 with the discount rate at $7\frac{1}{2}$ per cent. The Reichsbank was able, then, in spite of that immense strain—which is characterized by some as an actual crisis, while I should, nevertheless, not characterize that strain as a veritable crisis—to do justice to all the demands made upon it.

When we consider that the note circulation per head of the population is in France 99 marks, in Belgium 82 marks, in the Netherlands 78 marks, in Austria-Hungary 32 marks, in Germany 23.9 marks, in England 13.4 marks, the situation of the Reichsbank may not by any means be termed critical.

It must furthermore be borne in mind that in the last two years money has been scarce in all countries and the rates of discount in all countries, particularly in England, uncommonly high. As regards Germany, which has made remarkable strides in economic development, special account must be taken of the fact that through the conditions in America—for Germany had to buy a variety of raw products, cotton, copper, food supplies, in great quantities at high prices and pay cash—she was sympathetically affected and suffered a heavy depletion of gold just at a period of retrogression. These circumstances must be characterized as altogether exceptional and transitory, and they have, indeed, been so characterized by all experts; they have, in point of fact, improved very materially in the second quarter of 1908. A country with the world commerce of Germany can not remain un-

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touched by the events in the economic life of other nations, and its discount rates will be more or less affected by those prevailing in London and America, be the capital of the Reichsbank what it may.

It has been further asserted—an assertion acknowledged by the bank management, too, as just—that, partly through a misconception of the duties of the Reichsbank, bill credits of no inconsiderable amount, which should not have been granted, have been allowed at some of the bank's offices, particularly at subsidiary ones; these would in course of time be completely eliminated and the condition of the Reichsbank in consequence be quite materially relieved. Doctor Ströll has called attention to this also, and it is all the less necessary to amplify this point, since the bank management itself has, of its own initiative, directed that a remedy be found for this trouble.

From all these circumstances I would draw the conclusion that the Reichsbank, even if it has made mistakes in managing its affairs, has been able completely to fulfill its functions, and does not, in the future either, need an increase of capital.

3. A comparison with the capital of the Bank of France and the Bank of England leads to no different conclusion. I do not wish to repeat what Doctor Ströll has already brought out. I would only specially emphasize the fact that Herr von Gamp's view was thoroughly refuted in a clear and convincing manner by Herr Müller (Fulda) as well as by Professor Riesser, in the course of the hearings of the experts.

4. Now, I come to the question whether an increase of capital can permanently increase the stock of gold. Here

I essentially agree with Doctor Ströll. I would only remark that according to the assertions of our colleagues, who have been heard as experts, the vicious circle would ultimately show itself, that an increase of capital must always be taken out of the resources of the Reichsbank. But that this must be so can not be mathematically demonstrated; and I think that it is quite possible that by an increase of capital and by subscriptions for new shares resources in the general business world that have been lying dormant may be brought out and roused into life, and thus the Reichsbank's stock of capital and of gold may, after all, be reenforced. To what extent this will be the case, it is difficult to say. I will concede that, theoretically, it can be maintained with as much justice that an increase of capital must ultimately be covered entirely out of the resources of the Reichsbank as that the new capital could be drawn entirely, or even in part, from sources which had not till then been accessible for the purposes of general business. But since this is a point which, in my opinion, can never really be quite clearly made out, I would choose the middle course and say that anyway a great part of the increase that will flow into the Reichsbank will consist of new resources, so that a strengthening of the Reichsbank's position must, as Doctor Ströll has just specified, in any case follow as a consequence. Whether such a strengthening will be permanent depends, to be sure, upon entirely different circumstances, and is hardly to be assumed.

5. Now comes the further question, whether an increase of capital will have any, and if so whether it will have a permanent, influence in bringing about a reduction of

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the rate of discount. The experts—with the exception of Heyman, Wieler, and Steller, who, however, can not adduce any convincing grounds for their belief—have very generally regarded this as quite out of the question; on the contrary, Doctors Wiedenfeld and Bendix have called attention to the point that as the increase of capital must, as is assumed, ultimately come out of the resources of the Reichsbank, its condition will be unfavorably affected thereby, and a rise of the discount rate might rather be the result, since the outside resources previously at the disposal of the Reichsbank would thus have been withdrawn from it. This, however, is not quite accurate, since the Reichsbank would still have its own capital at its disposal, even if in another shape than that of deposits, etc. To be sure, the past has shown that the height of discount rates depends upon factors entirely different from the amount of the bank's capital; in this respect, then, an increase of the capital is decidedly without influence.

6. If, then, even a great increase of the capital could be of no noteworthy, and particularly of no permanent, benefit to the condition of the Reichsbank, it might, especially in dull times, be accompanied by serious disadvantages; for it is hoped that the public will be induced by an extension of the check and deposit business to deposit their idle cash in larger measure either in the Reichsbank or in the credit banks; and the coining of a greater quantity of silver money, as well as the issuing of smaller notes, will not only add to the circulating medium, but is meant especially to obviate the oversaturation of trade with gold coins and to substitute

paper and small change for the excess of gold used in trade, thus keeping the gold in the Reichsbank and rendering it trebly useful for general trade.

If there should then still be an excess of capital at its disposal, the bank would in quiet times be tempted to run after credits, particularly loans on securities, which it is not suitable for a bank of issue to go into on a large scale, and thus compete needlessly with the credit banks and render itself more than ever incapable of making the note circulation elastic and of being a ready and adequate reservoir for the credit banks in critical times.

In case the check and clearing business and the multiplication of silver and notes bring about the results expected, an increase of capital would be unnecessary, while, by diminishing the Government's share of the profits, it would be directly disadvantageous to the finances of the Empire, aside altogether from the consideration that the bank management might be positively forced into extending its grants of credit in order to make the capital profitable.

7. In any case, the present moment—and this has been pointed out in various quarters—would hardly be opportune to recommend such a measure to the Government, since foreign countries might, at any rate, see in it a weakness of the Reichsbank.

8. An increase of capital would, likewise, involve knotty discussions regarding the regulation of the division of profits, the premium in negotiating bills, etc., which it would be better, at least at present, to avoid, and which, for the rest, should be left to the representatives of the bank administration.

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9. Essentially the same reasons that are urged against an increase of capital hold good also against increasing the surplus. The effect of such a measure would certainly be of still less consequence. It might be maintained here that such an increase, which proceeds only from an excess of profits, retains ready money in the bank which it would otherwise have to distribute. To such a measure the opponents of an increase of capital have, at all events, expressed their assent. The strengthening of the surplus however, would have to proceed from the general excess of profit and not merely from the excess of profit which accrues to the shareholders. It would not be consonant with justice and propriety to establish a surplus solely at the expense of the shareholders. It is not in itself to be rejected as inexpedient, but would have to take place, as long as the management finds it desirable, without qualification or limitation.

Even if one acknowledges that the reasons adduced by the majority of the experts in support of their view are convincing, and must declare oneself opposed, in theory and principle, to an increase of capital, it should nevertheless be recognized—and it is acknowledged by a great number of experts as well as in the literature of the subject—that, after all, the question whether the bank management might deem it desirable to increase the capital in a moderate degree—by from 20,000,000 to 70,000,000 marks—can not be regarded as in any way vital.

If, in particular, the bank charter instead of being granted for ten years, as it has hitherto been, were to be extended for a longer period, it could indeed be justly

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said that our further economic development might actually involve the necessity of also increasing the capital of the Reichsbank. The advancement of the check and clearing system, too, will occasion an extension and increase of branch banks as well as a number of other expenses, for organization and the heightened cost of administration, all of which must make it desirable for the Reichsbank to possess greater means of its own. In the event of a moderate rise of capital, of from 20,000,000 to 70,000,000 marks, I should be of the opinion that in a law for the Reichsbank the amount of the increase of capital and the period within which such increase shall take place should alone be stipulated, but that it should be left to the Bundesrat, in unison with the administration of the Reichsbank and the central committee, to decide when and in what measure it is desired to make use of this power set forth in the law concerning the increase of the capital. And they should, in particular, determine whether an immediate rise to the maximum might take place, or, if the power be granted to raise the capital of the Reichsbank even by 100,000,000, in what period of time this rise should occur, and what shape this distribution of new shares (which should not be permitted to be issued in denominations of less than 1,000 marks) should assume. In our deliberations we have constantly heard from all sides very high praise bestowed upon the trustworthiness, discretion, and shrewdness of the Reichsbank administration. Now, if we entertain this conviction, and if we can, besides, start from the conviction, which has frequently found expression,

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that it is the Reichsbank itself which, in its management, must best feel where the shoe pinches, whether it does or does not need an increase of capital—then we must grant it full power with perfect confidence and leave to it the carrying out of the programme. That is my opinion.

Mr. KAEMPF. Gentlemen, Herr von Gamp thinks it would be desirable to investigate the causes that led to the so-called crisis of the last few years. I believe, however, that it will not be necessary to procure the figures which Herr von Gamp wishes to have, for the causes that brought about the tension of the money market are perfectly obvious now that we can take a survey of the last few years. We have had a world situation which necessarily called for a large circulation; in Germany, we have had a rapid development of industry which necessitated the putting of great amounts of capital into fixed forms, and it is precisely this fixing of capital that led to the tension which has prevailed in Germany during the last few years; and finally the American crisis was added. What, on the other hand, the figures that Herr Gamp wishes to have are meant to prove, and what the figures that he has adduced actually prove, I do not quite see. The figures that he has cited do not prove anything. He picks out among the bank offices those that in the period between the 15th and 30th of September and between the 15th and 31st of December had the greatest demands made upon them, and finds that the bank offices in places where industry is chiefly represented are not among those upon which the greatest demands were made. When I

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consider, however, that it is precisely the fixation of capital that produced the tension, then it is obvious that the bank offices in places where industry is largely represented did not receive bills arising from such fixations of capital, and could not receive them, for credit bills of this kind should not be discounted by the Reichsbank, and were so only in very minute quantities. The demands for credit resulting from such fixation of capital were made much more largely upon the private banks, putting these, on their side, under the necessity, at certain times, notably between the 15th and 30th of September and the 15th and 31st of December, of presenting any kind of bills to the Reichsbank to be discounted in order to obtain the funds necessary to satisfy the requisitions for capital made upon them.

Freiherr von Gamp stated further that a great number of industrial stock companies had and still have large balances in the banks; that therefore industry could not possibly have been in a position to make great demands upon credit. This also proves nothing. If there were a great number of such establishments it does not at all follow that there were not many others in a position to make credit demands upon the banks. It would similarly prove nothing if some one were to say that since a great number of farmers have balances in the banks, agriculture in general is not in need of credit.

Although, therefore, I hold that the figures adduced by Herr von Gamp do not prove anything, and that the figures he desires to have will likewise prove nothing, I take nearly the same view that he does regarding the increase of the Reichsbank's capital within certain limits.

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He did, to be sure, say that the first concern of the Bank is to maintain the standard and to oversee the regulation of the circulation of money, and to see to it that in these respects all should go straight in Germany, on the right track; and that the granting of credit was only its secondary concern. But all his specifications had a bearing not upon question No. 1, the regulation of circulation, but upon the granting of credit. It seems that in his mind the granting of credit plays an extremely great rôle.

If, now, I turn to the question, What is the standpoint from which the possible increase of capital of the Reichsbank is to be judged?, then I can consider but one point of view as controlling. The Reichsbank must actually see to it that the monetary circulation shall remain on the right track. As a prime requisite to this end, the Reichsbank must be able to redeem its notes at any time, and its grants of credit must be regulated from this point of view and from this point of view *solely*—that is, it should discount those bills only as to which it may be assumed with perfect certainty that at their maturity bank notes will flow back to the Reichsbank. This point of view being taken, the Reichsbank must treat all classes alike—allow the artisan class, if it can be fitted into this category, credit just as well as agriculture, commerce, and manufactures. No one should be favored or discriminated against, provided he fulfill the requirements regarding the granting of credit to be exacted in accordance with the view I have stated. Agriculture and the trades should not be granted long-time credit, which is not calculated to secure the return flow of bank notes, any more

than commerce and manufactures. With the understanding, however, that the bills discounted may be absolutely counted on at maturity to bring about a return flow of the bank notes to the Reichsbank, all classes must be treated alike.

Now, I admit that the circulation of money in the country can not be put into essentially better shape by an increase of the Reichsbank's capital than it has been with its present capital. I do not, for instance, believe that the Reichsbank's stock of gold is permanently increased by an increase of its capital. The experts have already expressed the opinion that the determining factor is the international balance of payments, and not whether the Reichsbank, when it issues new shares, receives in its coffers a certain amount of gold, be the same great or small. Neither do I think that the increase of the Reichsbank's capital can have a material influence upon the reduction of the rate of discount. Therefore I believe that if the object is to regulate the circulation of money an increase of the Reichsbank's capital is unnecessary. Nevertheless, I think that it appears desirable from various points of view.

I am, in the first place, of the opinion that in case of an essential increase—such as has already occurred of late—of the Reichsbank's business in foreign bills an enlargement of its capital may be desirable. The same thing applies to loans on securities. I am, further, of the opinion that it is not a proper proportion for the Reichsbank, with a capital of 180,000,000 and a surplus of 64,000,000, to have expended 54,000,000 in real estate. In the case of

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a private bank this proportion would be characterized as unhealthy.

I hold, besides, that the volume of its deposits indicates that a certain strengthening of its own resources may appear desirable to the Bank.

When I consider all these points of view, I arrive at the conclusion that it seems desirable that an increase in the Reichsbank's capital shall take place; particularly, too, because I believe—and here I find myself in opposition to the honored gentleman who spoke last—that we should seize every means to strengthen the credit of the Reichsbank abroad also. The worst thing that has happened to us in recent years is the inception of a doubt abroad as to the solvency of the German Empire in the matter of the gold standard. We have every incentive to work against that feeling; I consider this the most important aspect of the whole question.

As regards the augmentation of capital, I am not in favor of a great increase. In my judgment an increase of about 60,000,000 is sufficient, and that at a price for the shares which shall correspond approximately to the amount of the surplus. An addition of about 80,000,000 would thus be made to the Reichsbank's own resources, and that I consider adequate to satisfy its needs. Whether this should be carried out in stages or at once is a question open to debate. I would carry it out in stages, in order that the domestic money market should not in any way be disturbed by the issuance of the Reichsbank shares; even though a sum of 60,000,000 is not so great that it can produce serious disturbances in the domestic money market.

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Freiherr VON WANGENHEIM. Gentlemen, when I was appointed to the commission, I tried at first to decline the summons, and accepted it only under the supposition that what was demanded of me was that I should, to the best of my ability, give expression here to the views that prevail in the economic and political circles familiar to me.

Nor do I consider it our duty to enter into a great debate here; there is an abundance of talk; the chief battle is to be fought in the Reichstag. Accordingly, I will limit myself most rigidly.

I beg to be excused, too, if I confine myself to notes this time, by way of exception. I belong usually among the unfortunate speakers who can not make use of notes; but to-day I consider it important that my remarks be reproduced verbatim.

Numerous means have been proposed here to remedy the precarious conditions that prevail with us at present in monetary affairs. But, gentlemen, I do not believe that the adoption of any one or even of a number of these various means will bring about a fundamental improvement. All the questions of the bank inquiry are, in my judgment, to be considered from the following fundamental points of view: The unlimited abuse of credit, with the reckless economic development which it alone made possible, is the real cause of our periodic crises, with all their grave economic and social evils. The aim of all reforms in the domain of banking and credit must, therefore, be to bring about steady, quiet, and moderate development. From this follows the

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necessity of a more general realization of the fact that the business of granting credits out of other people's money is not only a business but also a very responsible office, and that here business considerations must always be made to harmonize with the obligations which arise from the nature of that office. To this effect Riesser, in his work *Zur Entwicklungsgeschichte der deutschen Grossbanken* (History of the Development of the Great German Banks), second edition, page 173, says: "Not only private but public interests are here at stake." In the same passage he remarks: "It is not without significance that even the employees of the banks are spoken of as bank officials, for they are appointed in the service of undertakings whose objects and development are not of a purely private nature, and which transcend more and more the sphere of regulations pertaining to purely private rights."

Riesser then shows—page 130—by a number of examples that the political outpost fights of the nations, which are sometimes followed by the greater battles of the national armies, are to-day fought on the financial field by the great credit banks. Such vital processes, which may, in some circumstances, be decisive of the existence or non-existence of the State and of the distinctive civilization of its people, can not be committed solely to the dividend interests of the private banks. Here, too, under free competition, it is no longer he that is conscious of duty, but he that is most eager for gain, who conquers. In the business reports of the great banks we find complaints of ineffective admonitions to be moderate in demands for

credit. But because a transaction which one bank would not undertake is at once entered into by its competitors, the private banks do not, in our times, possess the power to check the mania for speculation and profit which underlies the demands for credit; with their eyes open they drift toward the next general crisis.

All these considerations must force the legislation of our time to place the business of dealing in credits with other people's money under such legal regulation as shall safeguard the interests of the people.

As a matter of principle, therefore, in regard to questions I and II, I must put forward the demand that the Reichsbank be nationalized.

Much has been said by the opponents of nationalization as to the jeopardizing of the funds of a nationalized bank in case of an unsuccessful war. But about the same kind of people consider the prime financial preparation for war to consist in the greatest possible possession of foreign gold values in bills and foreign exchange. These foreign bills are with us quite preponderantly bills on London—on the chief market, therefore, of a state against which it is no longer beyond the region of probability that Germany may engage in war. Then, would the "gold in London" form a part of our financial mobilization? The Hague Peace Conference, too, decided with England's assent to prohibit a belligerent power from abrogating the rights and claims of the subjects of the enemy, or from temporarily invalidating them, or excluding suability. (Geheimer Finanzrat Doctor Von Lumm, on Foreign-bills Policy, May 12, 1908.) Anyway, in case of a war

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“gold credits in London” seem less secure than the gold in the vaults of a nationalized Reichsbank.

In case, however, the nationalizing of the Reichsbank will, as I assume, not be agreed to, a fundamentally new conception of the Reichsbank must at least be introduced into its administrative policy and into legislation. To-day it is regarded as the “bank of banks.” The shares are held by the banking world and by its circle of customers. Out of this circle the central committee is constituted. These circles are given the first chance to obtain the low-rate credit of the Reichsbank, with the advances free of interest, etc. The Reichsbank must be transformed from the position it has hitherto occupied as the “bank of banks” into the “central bank for the protection of the nation’s economic interests.”

1. There must take place, therefore, a material increase of the capital, perhaps a doubling (500,000,000), as was proposed by the expert Kommerzienrat Moritz Leifmann, banker, in Düsseldorf (“Zusammenstellung,” p. 12). The share capital and surplus of the Reichsbank amounted in 1875 to 150,000,000 marks, in 1907 to 240,000,000; in the 7 Berlin great banks it was 250,000,000 marks in 1875 and 2,500,000,000 in 1907.

Prion says in his work, “Das deutsche Wechsel-Discountgeschäft” (The German Bill-discount Business), 1907:

“The average cash holdings of the Reichsbank, which furnish the basis for the security of the currency, can no longer be termed sufficient, in view of the abruptly changed balance aggregates of the other banks. The acceptances alone set afloat by the banks exceed the average amount of

the circulating bank notes. In the further development of the credit banks there is great danger that the extension of their credit business may easily go beyond the line drawn by the Reichsbank in determining its holdings of gold as the foundation of the whole edifice of credit. From this standpoint, likewise, an increase of the deposit transactions of the Reichsbank, for the purpose of attracting gold, is by all means desirable.”

2. The new stock certificates to be distributed should be of the denomination of 200 marks, as the expert, Bendix (p. 13 of the “Sammlung”), has proposed; and this at a selling price of 130 per cent, as in the subscription of 1875, and under control of the communities, in order that the stock certificates shall not fall into the hands of foreigners or of the circle of customers, or into the possession of our great banks, but into the hands of the German people outside this circle. Preference to the middle class in town and country!

The distribution of these stock certificates should be effected exclusively by the Reichsbank, which should take over the stock at 130 per cent, on commission, and sell it at that price to members of the German middle class, in the order in which their names appear on its subscription books.

This increase of capital would then not be taken from the bank credits—and therefore counteracted by increased demands upon the Reichsbank—so that the available resources of the Reichsbank would not be diminished. Then it would be possible to purchase gold abroad with these augmented resources in order to increase our gold supply.

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I am opposed to the proposition on page 17, that foreign gold bills should be admitted as cash cover within the meaning of the bank law.

The strengthening of the surplus I also favor on principle. This would be accomplished best by a strengthening of the capital. Whether it is to be carried out by stages is a practical question which need not be decided at present. The time could be determined after we return once more to normal rates of interest.

Mr. SCHINCKEL. Gentlemen, we have been asked to express our judgment in regard to the question before us, with brief statement of our reasons. I can not, therefore, avoid returning to the arguments which have already been brought forward by the previous speakers.

I take up in the first place the speech just delivered by Freiberr Von Wangenheim, and can not deny that I was somewhat astonished at his bringing up an extremely important and far-reaching question which is not contained at all in the list of questions before the commission, upon which we have heard no experts, and which would extend our discussions to impossible lengths. I can not find in the list of questions the nationalization of the Reichsbank. Nor have we up to this time ever spoken of nationalization in our debates; neither has the question come up whether changes ought to be made in the organization of the Reichsbank's administration. It was, on the contrary, expressly stated in the inaugural speech of the under secretary of state that fundamental changes in the organization of the Reichsbank were *not* to be subjects of the inquiry. I must, therefore, forego entering into

particulars on the subject of nationalization; it would, in my opinion, prolong our debates for days.

Freiherr von Wangenheim spoke further of an unbounded granting of credit having taken place. I am under the impression that the situation in which we find ourselves was brought about by all sorts of faults, perhaps among them by a too ready granting of credit; but I must protest against the stress that is always laid upon the credit banks having been guilty of quite special faults. I, for my part, am of the opinion that if too much credit was demanded and granted, much more was done on the part of the cooperative credit institutions than on that of the great banks. There is, in my judgment, too much running into debt throughout the whole country.

Freiherr von Gamp attempted once more to search into the causes which were the most prominent factors in producing the money crisis, as it is always termed, of last fall. Here, too, I must briefly add my view of the arguments that have been advanced. I consider it idle for us to cudgel our brains as to whether it was manufactures or agriculture or commerce that made the chief demands of excessive credit upon the money market and, consequently, upon the Reichsbank. I am convinced that all contributed their share, and to a certain extent, indeed, quite innocently. It is obvious that as a consequence of a flood-tide in business the price of everything rises immensely, as was the case last year. Nothing can be excepted. Raw materials, and grain in particular, rose enormously.

A VOICE: Wages, too!

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Self-evidently, more capital is needed to handle the commodities, and this must be obtained by means of the granting of credits. Any very special offense on the part of manufactures or agriculture or commerce can not, in my judgment, enter into the question here. The best evidence that too many bills were in circulation is offered by the considerations I have just mentioned; the Reichsbank had too little gold, however, primarily in consequence of our unfavorable balance of payments at the time. The present furnishes a proof of this. Now that the business boom has run its course, that prices (with the exception of grain) have fallen just as much as they rose before, we see that there are fewer bills; the Reichsbank has not so many demands made upon it. The only thing which has remained, and which, in my judgment, lastingly demands our chief attention far more than the temporary credit needs of commerce, manufactures, and agriculture, is the running into debt that has in the last years been prevalent in Germany, on the part of the Empire as well as on that of the states and the local governments. And if Freiherr von Gamp has solicited a special statement in regard to this subject I consider it very appropriate; the figures will show how enormous were the demands made upon the money market by domestic loans. It would be a misfortune if, as a consequence of this, we should have to sell foreign bonds and should be absolutely unable to buy foreign securities on account of the great demands upon the domestic stock market. It is only by creating claims upon foreign countries, whether by increased exports or by holding foreign government securities, that we can improve our balance of

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payments, and only in that way can we prevent too much gold being taken from us. I agree with Herr Kaempf that the difficulties and the stringency which we experienced last fall were due far more to the small stock of gold in the Reichsbank than to the large number of bills afloat and the demands for discount, occasioned by them, made upon the Reichsbank. I do not see that the Reichsbank's holdings of bills have in the course of decades risen so enormously. The evil lay in the Reichsbank having too little gold, and this evil is to be remedied by creating claims upon foreign countries. At any rate, I am of the opinion that the Bourse was this time, as it happens, quite innocent, in spite of the indirect assertions to the contrary, for all statistics will demonstrate that speculation did not strain the money market at all; it has indeed seldom occurred that the Bourse required as little money as last fall. This is owing to reasons into which I do not wish to enter; the Bourse has legitimate demands also.

Freiherr von Gamp desires that the Reichsbank treat with entire impartiality all bills which it accepts. But I observe that he departs from this impartial standpoint when he holds that the Reichsbank is just as much obliged to accept all long-time bills, even such as are provided with security-crutches, as it is the short-term bills of the banks. As regards that point I can only reiterate and emphasize my opinion, that, with a view to the solvency of the Reichsbank, there is a tremendous difference between the two. With the Reichsbank, its only means of granting credit, with the exception of loans on collateral, is by discounting bills. The main credit business of the

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Reichsbank, therefore, is limited to the discounting of bills. It should certainly, then, not consider a bill which is sure to be renewed after three months, which must, besides, be provided with some sort of security, according to the law, in order to make up for a poor signature, as on an equality with a bill which will unquestionably be paid at maturity—which it is not necessary to renew. In this sense the short-term bill is self-evidently greatly preferable to the long-term bill, for the short-term bill is paid so much sooner and eases the situation of the Reichsbank. From the standpoint of banking principles, this difference can not be ignored. And here, too, the Bank should maintain impartiality.

At the quarterly periods the Reichsbank will unavoidably have to accept more bills from the banks than from other quarters. It is the banks that, along with the Reichsbank or in place of the Reichsbank, are the intermediaries of credit throughout the German Empire. The private banks must, in fulfillment of their duties, primarily subserve the requirements of credit, while the Reichsbank's prime duty is to regulate the monetary circulation. The private banks will always need to have the assurance that they have the Reichsbank behind them at the quarterly periods. I regard it as a quite legitimate thing, entirely consonant with its duties and not disadvantageous to it, for the Reichsbank to resort, in case of necessity, to a temporary increase of the discount rate—a thing which is no misfortune at all, but a needed warning signal to the banks. It is the duty of the Reichsbank; there is nothing illegitimate about it.

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If the Reichsbank were to wait for the long-time bills of the private banks, or for the bills that come to it at other periods, it might wait a long time. To keep presenting bills—not to mention long-time bills—to the Reichsbank right along, throughout the year, is a thing that no great bank does. That is a mistaken notion on the part of Herr von Gamp. I regret exceedingly that he should have left. This can not be too often brought to his notice. I say this with the best intent. Director Mueller succeeded in convincing Herr von Gamp on one point, and I do not doubt that he will allow himself to be convinced on this point also.

Herr von Gamp spoke, further, in regard to paying interest on deposits. Now, money payable on demand any day should not in addition be provided by the Reichsbank with an interest premium. I do not know whether Director Gwinner favored this, but I can not approve it. On the other hand, I am confident that the deposits which flow to the Reichsbank in the natural way will constitute its least jeopardized assets in critical periods. On the occasion of the hearings of the experts much was said of the fact that of the deposits at the disposal of the Reichsbank nearly one-half is in transit; that is, in process of being transferred. It is self-evident, really, that deposits increase in critical times, because everybody wants to accumulate a reserve, and in far greater measure will this be the case in critical junctures with regard to the deposits of the Reichsbank; everyone will then regard it as the best depository. I am not afraid that the Reichsbank will experience any sort of difficulty on account of its deposits.

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Now, as regards the main question, whether an increase of the working capital of the Reichsbank, either by way of adding to capital or by way of strengthening the surplus, is desirable, I am rather indifferent concerning that problem. I do not, naturally, expect any advantage to arise from an increase of the capital or of the surplus, particularly any effect to be produced on the rate of interest or on the gold holdings of the Reichsbank, which is the main point. I do not fail to recognize that it would not be a desirable measure at the present moment to go into the money market with a new demand for capital; not because I fear that the money market will thereby be ruined, but because—and I would ever again call especial attention to this—every putting up for sale of domestic securities has the great disadvantage that foreign loans, which we urgently need for our balance of payments, will be driven out of the country. I should not, therefore, regard the present as a very appropriate time.

But there is another consideration. It would not be satisfactory for the Reichsbank to dispose of its shares at too low a rate; while too high a rate, again, would, in my opinion, not do justice to the purchasers, particularly if the charter of the Reichsbank is to be actually renewed once more for only ten years. We have heard again to-day that the question of nationalization does not by any means seem to have disappeared from the order of the day. In the event of nationalization, the shareholders, as you know, have a claim upon only half of the surplus; the new shares can not be sold at a much higher

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price than the amount for which they will be redeemed ten years later. If from this standpoint, but for many other reasons as well, it were possible to prolong the charter of the Reichsbank beyond ten years, it would, in my judgment, be most desirable. I think that if a strengthening of the Reichsbank's resources should be contemplated, it is the concern primarily of the management of the Reichsbank. Should it be actually contemplated, I believe that in view of the fact that there is no prospect of prolonging the charter beyond ten years, the question to be considered is rather the strengthening of the working capital by the accumulation of a surplus. Nor do I feel any scruples that an injustice would thereby be done to the Government because the Government contributes three-quarters and the shareholders one-quarter to it.

A point that has not as yet been dwelt upon is that the surplus, half of which would go to the Government in the event of dissolution, was contributed in much the greatest part by the shareholders. It consists in large measure of the premiums on the new shares. The shareholders accumulated the surplus at a time when the Government did not yet have the three-fourths interest. In view of the possibility of a division with the shareholders—a thing most regrettable in my eyes—I should not consider it unjustifiable if they contributed one-fourth and the State three-fourths to a further accumulation, with the provision that each should receive a half upon division.

How this could be accomplished is of course a matter of opinion. I should think that if 10 per cent of the profit over and above a $3\frac{1}{2}$ per cent dividend were put into

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the surplus it would in a reasonable time increase sufficiently to furnish the Reichsbank with the means which it would require for the fixation of capital—the acquisition of buildings. As soon as the fixation of capital exceeds the surplus, there is, according to banking principles, too much fixation. However, not so many buildings are acquired that they could not be paid for through the growth of the surplus.

I can not agree with Herr Kaempf's view that the Reichsbank, as such, is regarded abroad with doubt as to its efficiency and its credit capacity. All other possible things in Germany have been questioned by foreign countries, including the adequacy of the gold holdings of the Reichsbank; but that it is deficient in capital I have neither read nor heard. As far as that is concerned, therefore, foreign countries need not be taken into account: They cast their eyes, indeed, upon everything that takes place in Germany. I may, consequently, say once more, unless the management of the Reichsbank have extraordinary reasons for undertaking an increase of the capital, I should not advocate it. I would rather favor the strengthening of the surplus as a means of increasing the bank's resources.

The CHAIRMAN. In the opening words of Director Schinkel, in which he said that Herr Wangenheim broached an inadmissible subject in speaking of the nationalization of the Reichsbank, I detected a slight reproach against myself. I should like to explain my position on this question to the effect that I do not on my part either

regard it as profitable for us to treat of subjects that are not directly connected with our list of questions, and that I should likewise regard it unprofitable if an exhaustive debate about the nationalization of the Reichsbank were attempted. Freiherr von Wangenheim, however, had, I take it, no intention at all of opening a detailed discussion of the subject. As I understood him, he only wished to express these convictions: Certain reasons led him to regard the nationalization of the Reichsbank as, above all, desirable; if, and since, nationalization could not be attained within a reasonable time, he expressed the opinion that the same reasons that he adduced for the greater desideratum held good for the less, and that a material strengthening of the capital is to be regarded as this lesser desideratum. Within these limits I thought I had no occasion to prevent a discussion of the subject.

Freiherr von WANGENHEIM (rising to explain). I can only fully confirm what the president of the Reichsbank has just set forth. I stated expressly that in my opinion neither any one nor a combination of the various remedies which have been proposed will lead to a successful issue.

But I believed that I had an additional justification for touching upon the subject. I addressed myself to the Undersecretary of State, Wermuth, who delivered the opening speech here, and expressed my regret that he had excluded the most important questions from the debate. He answered me emphatically that he had not by any means the intention to cut off such discussions, but wished only to indicate the minimum of the range which the discussions of the bank inquiry commission were to cover.

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Mr. SCHINKEL (on the order of the day). It did not enter my mind in the remotest to refer to the chairman. It was only that I was genuinely frightened when I thought what a broad field of discussion is opened by the subject in question; and I value the work that we accomplished in connection with the experts far too highly to approve of considering so important a matter without having heard them at all in regard to it.

I would add only one thing further: I probably misunderstood Herr von Wangenheim. I understood him to say that even if nationalization could not come up for consideration, the administration would, at any rate, have to be differently organized, since the central committee consists only of professionals. This, too, is a question which has hitherto absolutely not been broached by any expert.

Doctor RIESSER (on the order of the day). I would state that the speech of the Undersecretary of State, Wermuth, must, according to my conception, be interpreted quite differently from the words he used unofficially to Herr Wangenheim. He declared expressly, under directions from the Imperial Chancellor, that—I quote from memory—any *change of organization* of the Reichsbank was to be eliminated from this inquiry. If the nationalization of the Reichsbank is not included in this, then I do not know what his words signify. I am convinced that the president would most energetically have stopped any expert who undertook to make a speech on the nationalization of the Reichsbank, basing his action, too, upon the opening speech of the Under-

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secretary. The experts, consequently, did not express themselves upon nationalization, and we must, therefore, desist at present from touching upon this subject even by intimation; a detailed discussion would, in default of the opinions of the experts, anyway be precluded.

Mr. RAAB (on the order of the day). I think it is really going too far to say that we should not even "by intimation" discuss questions which, as matters of principle, we feel it necessary to present before our other arguments. We have in general been governed, upon practical grounds, by the view of the Imperial Chancellor, delivered here by the Undersecretary. But that we can not, either here or in the proceedings of the parliaments, agree to a setting aside of our principles is a matter of course. I should think, indeed, that if already to-day intimations are given on the subject, our opponents will recognize that the question of the nationalization of the Reichsbank, and also the question of separation into credit and deposit banks—which has likewise been excluded here—will subsequently presumably be revived in Parliament. We only want to prevent its being said later: "In the inquiry commission the gentlemen said nothing about it, and now in the Reichstag they bring up such things." It was in order to avoid this, I believe, that Herr von Wangenheim gave expression to his views.

The CHAIRMAN. I think I defined my position very precisely a while ago. To engage in a searching debate here on the question of the nationalization of the Reichs-

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bank I regard as utterly fruitless; but, on the other hand, I see no objection whatever to touching upon the subject within bounds, as Baron von Wangenheim did, in declaring that the greater end, the nationalization of the Reichsbank, would seem to him, as a matter of principle, the more desirable thing.

Doctor RIESSER. The honorable member who spoke last misconceived my meaning. That the gentlemen should intimate here that they will in Parliament assert their position to the effect that the nationalization of the Reichsbank must take place is quite natural; no one can or will dispute that point with them. But we could not, in view of the importance of the question, be satisfied on our part with an intimation of our opposite convictions; we should, then, have to reply at length, if the question were to be treated at all fittingly by the other side. We can not do that, because the question of nationalization—according to the declaration of the experts, as I understand it—was intentionally excluded, on the basis of the declaration of the Imperial Chancellor's representative.

Geheimer Oberregierungsrat MÜLLER. As a representative of the ministry of the interior, I can only assert that Freiherr von Wangenheim's interpretation of Undersecretary Wermuth's meaning is, in my judgment, quite consistent with what his excellency said at the first sitting. There would have been little object in discussing the nationalization of the Reichsbank with the experts after the opening address, and I myself, as chairman of the subcommission, did not, as the gentlemen may see in the

minutes, permit Herr Steller to discuss the question. But, gentlemen, it is an entirely different thing if a member of the commission of inquiry, in explanation of his view upon the question of a considerable increase of the Bank's capital, says: "If I can not have what I consider better, namely, the nationalization of the Reichsbank, I shall content myself with the good." That, briefly expressed, was really Baron von Wangenheim's meaning, and I repeat that it is quite compatible with what was said by Undersecretary Wermuth in his opening speech. I stand, therefore, as a representative of the ministry of the interior, upon the same platform as our honored chairman, who has already expressed this opinion.

Freiherr von WANGENHEIM. I have nothing to add to the arguments of the chairman and Geheimrat Müller. Those gentlemen have very exactly stated the object and purport of my remarks.

Mr. FISCHEL. I, too, regard the proposition made by Herr von Gamp a useful one, that before entering into the question of an increase of the Reichsbank's capital itself we should briefly try to make clear to ourselves what were the causes that led to the uncomfortable conditions of last year—I myself am not inclined to term it a crisis. I consider it necessary to enter into this point first, because it does not seem to me practical for us to separate in our discussions the question of the bank capital from the question whether we can draw the conclusion from last year's experiences that changes are required.

Starting from the well-known fact that we had an extravagantly high rate of interest last year, I would first

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of all remark that this extravagantly high rate of interest doubtless exerted an unfavorable influence upon the granting of credit and occasioned credit disturbances. But the rate of interest in business transactions is, in my opinion, not determined exclusively by business circumstances; it is also essentially influenced by the rate of interest on capital; and this, again, is conditioned upon the relation between the demand for and the supply of capital, which may be very different from the calls or the requirements for circulating media. As regards the relation between the demand for capital and its supply, however, it can not, in my judgment, be in any way among the duties of the Reichsbank to regulate this, even though its duties be interpreted in the broadest sense. There has been an increased, nay, an excessive call for capital for some years past, and this may be traced to a great number of causes; in my judgment, it undoubtedly began with, and was partly caused by, the need of a money supply for the two great wars of recent years, the Boer war and the Russo-Japanese war. The world's money market can not remain unaffected when such vast demands as were called forth by these are made upon it for noneconomic purposes, in the shape of loan issues. There was at the same time a great expansion of industrial activity in all countries, particularly in Germany, which required fresh capital; besides this, new loans in excessive quantities, proceeding from different sources, mostly state and municipal loans, were brought to the market. The capital available to satisfy these needs was unquestionably inadequate, and the rate of interest on capital was, in

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consequence, forced upward; with every rise in the value of capital, however, a certain influence upon the general rate of interest must make itself felt.

The rate of interest was influenced further by the proportion of the circulating media to the work that they were required to do. This work has become much greater, as has already been pointed out by the experts in the commission of inquiry and by some of our colleagues, through the increased activity in production as well as through the rise in prices of all raw materials, in consequence of which more money than before had to be used for the same production.

Here, then, we are dealing with a factor which involves the absolute necessity of a greater volume of circulating media than we should formerly have required for similar undertakings.

But there is another, and, to my mind, a not insignificant factor to be added, and that is that the source from which the circulating media were to be drawn has not normally expanded. I should like to define this somewhat more precisely. If business increases in general, we need more money. This money can be procured by fresh supplies of currency; but it can be procured also by an extension of fiduciary media. In the last two years, however, the whole extension was confined to the fiduciary media, and it had to be so confined because there proved to be an inadequate augmentation in the monetary supply.

I have allowed myself this digression because I deem it necessary to gain a clear insight as to how far these conditions might have been improved by an increase of the capital of the Reichsbank.

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To an improvement of the conditions prevailing last year two things would have been requisite; in the first place, the great demand for fresh capital, which forced the rate of interest upward, should not have existed, and, secondly, we should have had a larger quantity of circulating media at our disposal.

Having stated this, I would now revert to another observation made by Freiherr von Gamp. He very justly recognized that the most important business of the Reichsbank is that of regulating the monetary circulation. He then alluded to its business as a credit bank, and as our colleague, Herr Kaempf, has already pointed out, he amplified this allusion with such a quantity of detail that it seemed indubitable to everyone that he assigns even to the Reichsbank rather the functions of a bank of credit than of a bank whose duty it is to regulate the monetary circulation. Now, I take the opposite ground; I go so far as to say that the Reichsbank should not be a bank of credit at all, for I do not consider the two functions compatible. The duty of regulating the circulation will, of course, always be connected to a certain extent with the granting of credit; this credit, however, should not be granted in order to provide a person in need of it with the credit he desires, but solely in connection with the issuance of notes, which can not naturally take place gratis or without pledges; on the contrary, the Reichsbank must get into its hands, for its entire amount of note issues, securities which are calculated to bring back the notes to it as soon as they are no longer needed. I, for my part, should wish the Reichsbank never to acquire any bills on

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account of some one's need of money; I should wish that its arrangements for discounting bills were of such a nature that it would acquire bills only when German economic life collectively is in need of more abundant means of circulation. The only possible way of regulating the use of circulating media lies in absolute adherence to this fundamental principle. It can be accomplished only by fixing an appropriate discount rate. For, let us suppose that trade in the aggregate were already provided to satiety with the requisite circulating media and that the Reichsbank, merely in order to satisfy a demand for credit, were to discount credit bills to the amount of 20,000,000 marks; it seems to me really that this would put into the channels of trade 20,000,000 of money that is not needed, and thereby create a disturbance of the equilibrium.

The manner in which the Reichsbank has discharged its duties I would not draw into the discussion, for I fully share the opinion that it has hitherto not only completely fulfilled its function—it has even fulfilled it better than other banks; and as proof of this I would instance the fact that we were for many years spared such crises as are produced by an evident lack of equilibrium between the circulating media and business needs.

Now I do not by any means wish to preclude the Reichsbank from furnishing even direct credit, and thereby adding to the circulating medium, in case an addition to the circulating medium is required for the uses of trade; but I hold that the fixing of its rates of interest should be governed by this consideration: That it must, above all, adhere

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to the principle of maintaining an equilibrium between the demand for money and the needs of business. We can not, for that reason, regard the question of interest rates as indifferent, and, in my opinion, the second question presented to us, What influence will an increase of capital have upon the determination of interest rates? must be answered first, before coming to a conclusion on the question, Is an increase of the bank's capital requisite at all?

I want to premise that I agree with the view that the capital of the Bank should form solely a guaranty-capital for its business and for the fixations of capital connected with it. If we should arrive at the conclusion that the bank capital must be augmented, we must necessarily proceed from the view that it has hitherto been insufficient for the above-named purposes. That opinion I do not hold. I think that the capital, which, including the surplus, amounts to 244,000,000, has fully sufficed for the business of the Reichsbank. If I believed that the capital is too small I should have to think that the Reichsbank was not in a position, and that on account of too slender capital, to fulfill its function—the regulation of the circulating medium; that, for instance, it was obliged to refuse to discount bills and make loans on collateral, in spite of business needing the currency arising from these transactions. I believe that all experience contradicts such an assumption. I believe, further, that the desire to increase the bank's capital is based more or less, on the part of all who entertain it, upon the idea that credit has not been given readily enough. Now, we have, on the other hand, listened to views, which I would not controvert too

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sharply, which stated that perhaps, on the contrary, credit has been granted too readily. We must, in any case, acknowledge that the extension of banking has been so extraordinarily great in the last ten years that the opportunities of obtaining credit were doubtless not too meager, and that one can not say the Reichsbank should have had more capital to satisfy the requirements of credit. The amount, too, by which the capital would be raised would be far too insignificant, in comparison with the total of the credit demands, for it to play any sort of part.

But now, in order to examine the effect of an augmentation of capital, let us imagine that an increase had been effected; and believing that we can recognize the changes that would result therefrom more clearly by using large figures than small ones, I would choose a pretty large figure as an example. Let us assume that the capital of the Reichsbank was augmented by 200,000,000; what influence would this exert upon the entire character of our economic conditions? If it is recognized that great loans are taken up without producing a material disturbance in the money market, we must recognize also that the possibility does most certainly exist of issuing new Reichsbank shares in considerable quantity; the question would solely be whether the shares could hold out a promise of enough profit.

Now, I see a very essential difference between the Reichsbank receiving fresh capital and another institution increasing its capital, for I can not admit that in the trade of the world there is, in general, ready money lying about which is lured forth specially by the issuance of bank

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stock and is only thereby rendered profitable. If that were so, we should have to assume in the case of every great loan, if it were taken up under favorable conditions, that a material augmentation of monetary resources accrues from it, since it, too, rakes up money from every nook and cranny, and makes it serviceable to trade. But, speaking broadly, this phenomenon has not been observed.

The essential difference, however, is this: That when the Reichsbank increases its capital it diminishes the resources of the market to an extent that corresponds with the increase of its own working capital. Whether this money flows to it in gold, which I do not by any means consider probable, or whether it streams back to it in notes taken from trade; whether the increase occurs through a diminution in its deposit accounts; in all cases it will be at the expense of the market. When another bank augments its capital, it means that in the market for capital money is shifted from one place to another, but the sum at the disposal of the market remains unchanged. But if the market does not have at its command the money that is required for the payment of the Reichsbank shares there will be more demands upon the Reichsbank, for it can not be ignored that the Reichsbank is the only source that can create money; that can therefore, even in case of a great requirement, place new resources at the disposal of the market.

If those who desire an enlargement of the share capital of the Reichsbank in order that credit may be more easily obtained and the interest rate lowered keep this in mind,

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they must say to themselves that it is indeed improbable that the removal of a sum of money from the general market and the shutting it up in the Reichsbank can lead to that result. I believe that, quite on the contrary, we should, first of all, have the opposite result, and I do not base this belief upon theoretical considerations alone. When, namely, I look back at the time when the Reichsbank last increased its capital, I can remember very well that it was said in the market that in the course of the month of December so and so much money must flow into the Reichsbank, because a payment on the share capital will become due; and that this was regarded, if not as a particularly notable circumstance, as one, at any rate, that influenced the market, to a certain extent, in the direction of contraction.

But the equilibrium of the market can be only slowly restored when the Reichsbank places those resources at its disposal again, and it will have to place them at its disposal, for it is not to be assumed that trade could manage with a smaller quantum of notes upon the Reichsbank increasing its capital. But when trade requires a certain very sharply defined quantum of notes for its purposes, at a certain moment, then these notes must be on hand, and they can be given only by the Reichsbank.

Against these notes, however, the Reichsbank is obliged to demand pledges; these pledges are bills or securities. A permanent increase of the share capital of the bank—and here I beg you once more for the sake of an example to imagine 200,000,000—would, in my opinion, undoubtedly result in the bank having (leaving the loans on

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securities out of the question for the present) bills for 200,000,000 marks more permanently in its portfolio.

We must now ask ourselves: What influence would such a permanent enlargement of the bill portfolio of the Reichsbank have upon its dispositions, upon its interest rates, and its capacity for further discount transactions? I believe that I betray no great secret when I say that within the walls of the Reichsbank the level of investments was, throughout a long period, included, and justly so, among the elements that influenced the raising of the rate of discount. For the greater the number of notes that are not accepted for discount anywhere but at the Reichsbank the more positive are the signs of a rising tide in the demands of business, which the Reichsbank, if its object is to regulate business, can not restrain in any other way than by raising the rate of discount.

It is, however, conceivable that this addition to the bank's capital might be made from the funds that constitute its deposits. If this were done, I should imagine, in as much as the deposits are the working reserve of the merchant class and of the banking world, that this would likewise have the direct effect of tightening the money market. Such a tightening of the market could not possibly bring about a lowering of the rate of discount in the open market, but is rather calculated to cause a rise in the rate, a rise that could not fail to have an indirect effect upon the Reichsbank.

Of course I am not going to maintain—for I have chosen to take a much higher figure than has been proposed thus far for the increase—that the enlargement of the

capital of the Reichsbank is bound to lead to a rise in the rate of discount. But I believe that we may as well be clear about the matter. It can not lead to a reduction in the rate of discount. The result can only be that the granting of credit will be done to a somewhat less extent through the issue of bank notes. But if this is the case and the circulation is thereby temporarily diminished, I can not see how this is going to have the effect of reducing the rate of interest.

The question remains whether there is any other way for the Reichsbank to invest the funds that are constantly coming into its possession. One way has been suggested—the purchase of foreign bills of exchange. It is affirmed that the bank would thereby ultimately increase the amount of its cash. But it appears to me that the buying of foreign exchange and the increase in the cash are matters dependent upon the relation which the rate of interest here bears to that in other countries, and not upon the absolute rate. The relative rate of interest is the determining condition. In order to retain foreign exchange, it is necessary that we should have a relatively high rate of interest. If we are to retain permanently a larger stock of gold than what would come to us in the ordinary course of things, then likewise the rate of interest here must be high relatively to other countries. But even if it were deemed desirable to let gold flow into the Reichsbank by this means, it could take place only if the bank would, first of all, for a while at least—until, owing to the higher rate of interest, securities were disposed of abroad—raise its rate of discount or make up its mind to

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maintain it at a higher level than that which it would otherwise have reached.

I must therefore come to the conclusion that the scheme of securing easier credit and a lower rate of discount is not promoted by the method in question.

I must say I can not help asking myself whether we are bound to place ourselves entirely on the standpoint that all our energies should be directed toward the maintenance of a low rate of interest. I am inclined to assume that it would be better for us to have a stable rate of interest, one fluctuating as little as possible, than a very low rate that would be only temporary and would later on expose us to the danger of a corresponding violent rise. But even from this standpoint I can not see why we should expect any particular advantage to result from an increase in the capital of the Reichsbank.

I must still point to another feature of the situation. If you will take the trouble of looking over the statistical data which the Reichsbank has submitted to us, you will find that between the years 1897 and 1907 the expenses of the Reichsbank increased immensely. The expenses of management rose from 10,259,000 marks in 1897 to 18,762,000 in 1907. If we go back to the year 1897 we find that the profits were 19,400,000 marks. Now, if the Reichsbank were to increase its capital, I do not believe that it could undertake to frame its policy without considering the question of the rate of interest that could be realized on the enlarged capitalization. We must recognize the fact that the bank has never assumed the attitude of a mercantile institution. But if it means to solicit

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funds from the money market it is bound in a measure to make such capital yield interest. Now, let us suppose for a moment that there was a great slump in the economic situation and that, for example, the Reichsbank showed a total of only 700,000,000 or 800,000,000 marks in discounts and loans on collateral, and let us imagine furthermore that the rate of interest was down to 3 per cent. As far as I can make out, the bank would then barely be able, even under existing conditions, to get a return half-way sufficient for its stockholders. I should apprehend, therefore, considering that its burdens were further increased, that it would be very reluctant to come down to a low rate of discount, and that, even if actuated by a sincere desire to abstain from going into the credit market in quest of promissory notes, it might still at times be induced to do so. If I am not mistaken, the Reichsbank is allowed to take up private notes at a lower rate than 4 per cent, even in the open market. But the notes which are discounted by the bank at the private rate have a much more direct influence upon the rate of interest than the discounting of notes at the bank rate. For, whereas in the case of the notes discounted at the bank rate money gets into circulation only when it is needed, inasmuch as the notes are not taken to the bank before they are compelled to pay the highest rate in the market—which is the bank rate—money does get into circulation even when it is not absolutely needed in cases where the bank goes into the market to buy up notes at the market rate. An increase in the bank's capital would still appear to me objectionable for the reason that we should more

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easily get back to the situation where the bank would feel obliged to resort to this private discounting of notes.

In what concerns the existing capital it has been repeatedly pointed out that there is no sense in comparing our situation with that in other countries, but at the same time we can not afford to say that the experience of the outside world has absolutely no value for us. Whatever be the real nature of the capital of a bank of issue, whether it is to be regarded as a reserve fund merely or as capital by means of which the bank can dispense credit, is a question which there is no use in trying to settle; neither is the capital anywhere separately managed in its double capacity. It is a remarkable fact, however, that the Bank of England and the Bank of France manage to get along, the former almost entirely, and the latter altogether, without any free capital with which to satisfy the demands of credit. I think it is evident from this that the means at the disposal of a bank of issue consist in the issue of bank notes and in its deposits, so that, in my opinion, the question as to whether or not it needs its capital for the purposes of credit is of no importance.

I believe that the present capital of the Reichsbank is altogether adequate to existing needs—that is, probably sufficient to render even a somewhat larger investment in real estate innocuous,—that it is not too small for the purposes of a reserve, and that it is large enough to enable the bank to loan money on collateral on an adequate scale. Loaning on collateral is not done by means of the capital alone, but also by means of the deposits, and inasmuch as the volume of business in the country

tends constantly to increase, the deposits, it seems to me, must have the same tendency to grow. I must say, however, that the sum of the deposits has not itself kept pace with the general expansion of business in Germany, but I am inclined to take this rather as an expression of the somewhat abnormal conditions that have prevailed in the business world of Germany, and other countries as well, in the last few years, and I feel pretty sure that the economic situation is going to straighten itself out in the course of not many years. I should imagine, however, that this very increase in the capital of the Reichsbank would tend in a measure to hinder this readjustment.

The more we rely upon the capacity of the Reichsbank in the matter of discount and upon its capital with reference to this function, and the more we look upon it as an institution for discounting notes, instead of an institution for rediscounting notes, which, in my opinion, it should be, the smaller will be the surplus placed at the disposal of business interests in the country at large. I am, therefore, inclined from this standpoint also to regard with disfavor the proposition to increase the capital of the Reichsbank.

I may say that I am one of those whose attitude in regard to this matter may be described as one of indifference. I attach no special importance to it. The increase at this particular time does not strike me as being of any advantage whatever, neither do I see any need of enlarging the surplus just at present. By this I do not mean to say that it is not conceivable that the expansion of business in general and of the business of the

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Reichsbank in particular may be such in the course of the year as to make it appear desirable to add to the capital of the bank.

I have already stated my view in the first session of subcommission I and II to the effect that it would be very desirable to regulate the status of the Reichsbank not merely for a term of ten years, but for a much longer term. I said, furthermore, at the time, quite in the spirit of Oberbergrat Wachler's opinion, that I was not in favor of enlarging the capital of the bank, which is ample at present, but that I thought the proper thing to do was to insert in the new bank charter a provision by which this could be done, if the need were felt, at any time in the future, the regulation being so framed as to confer the necessary power right now (certain principles being laid down relative to the matter), so that, when the necessity presents itself, it shall be possible, without having to overhaul the whole question of the bank charter, to institute the increase by means of some simple process as, perhaps, through an understanding between the Bundesrat and the Reichsbank. I do not consider an increase in the capital of any advantage at the present moment.

Mr. FISCHER. Having heard, gentlemen, all that the speaker has had to say, I am tempted to go even beyond the suggestion of the president and to urge a vote without further debate. The only reason for craving your indulgence a little longer than is agreeable to myself or to you is that I find that of all the members of the commission I am the only one that does not represent either

the domain of science, the world of banking, industrial enterprise, or the class of agriculturists, or at least the interests of some large city, and that I am here in reality to represent, so to say, the middle and lower classes and their condition—the provincial element, which, to be sure, is also desirous to be allowed to have its say.

As its spokesman, I want to say that I regard the Reichsbank, such as it has existed down to the present day, as one of the most excellent and successful of our economic institutions, and I am of opinion that we ought not to neglect anything in order to maintain it in its present position, to extend its usefulness as far as possible, to strengthen it, to develop it, and to fortify it against any danger—fortunately not threatening at this moment, but easily possible in the future—that may arise from the crooked operations of banks or of banking concerns, whose activity we can readily imagine would be less altruistic and more egoistic than that of the Reichsbank.

But with all its excellencies the Reichsbank has hitherto not been perfect. It was especially a matter of deep regret to everyone that during the last few winters it was not able to prevent a rate of interest and of discount which, in the eyes of the public, was nothing short of usury. We are all of us assuredly bent upon discovering a means by which this sort of thing will no longer be a necessity. Not even the most expert among experts has discovered a panacea that will bring about this consummation, and the only one that is at present being urged strikes me as being of very doubtful efficacy—at all events, it has been ruled out of the discussion. It is therefore

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my opinion that what is going to take place here is just what has happened in so many similar cases; that is, that if no single great panacea can be found we shall have to resort to a number of petty devices, which in their totality and their cooperation may in a general way effect that which a great expedient, but one that is not discoverable, was to have brought about.

Among these lesser expedients I place without reservation the enlargement of the capital of the Reichsbank by 60,000,000 marks and the gradual raising of the surplus to one-half of the amount of the capital. I regret to be unable in this matter to agree with the majority of those who are experts on the subject. I can not help being under the impression that in their efforts to demonstrate the futility and even the harm of an increase of capital, etc., they have in a way been trying to prove too much. You must remember that all our propositions and arrangements are not intended for the coming weeks and months, but for the next ten or twelve years. When you consider that the Reichsbank has on an average been doubling its business every ten years, it is evident that in the course of the period for which we propose to legislate we shall be dealing with an aggregate business of perhaps 700 billion marks. If at the beginning it was thought necessary to provide a capital of 120 million marks for a prospective business of 36 to 80 billion marks for the first ten years, then it appears to me that when we have got to reckon on a business of 700 billion a doubling of the capital can not be regarded as anything preposterous.

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That such an enlargement of the capital could work mischief in any way I can not for a moment imagine, and I am glad to see that it is even now admitted on every hand, however divergent the various standpoints may be, that the status of the Reichsbank, although it might not perhaps derive any great direct benefit, would in some respects be all the better, and that as a result of a better status probably a greater quantity of gold might find its way into the bank than before.

The objection that the first result would be a threatened rise in the rate of discount does not strike me as very formidable, for the logical deduction from such an argument would be that the most effectual way of reducing the rate of discount was by returning to the shareholders the sums which they have invested in the bank capital. This is, of course, rather farfetched, but it is an intimation that there is no use in going too far on the other side. I believe that the same thing holds good of the Reichsbank as applies to every commercial institution, large or small—namely, that an extraordinary increase of business should at all times be accompanied by a corresponding increase in the fixed capital, and I can hardly conceive what real harm could result therefrom. The danger of diminished dividends to the stockholders does not appear to me a very serious one. I know perfectly well how pleasant it is to get from 8 to 10 per cent on one's bank stock. But I can say at least that I always have a bad conscience in pocketing regularly such a big dividend on such safe paper, and I am of opinion that the possessors of Reichsbank shares may as well be

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satisfied with 6 per cent, if they can feel that they are to get it right straight along.

When I express myself so absolutely in favor of an increase of the capital stock, I mean, of course, that I am also in favor of the increase of the surplus, and I believe that without any question in this respect, also, we can go considerably further than most of the propositions that have been made. Let us assume, as has already been urged, that 10 per cent of the current profit is put every year into the surplus. This would, reckoning on the basis of the favorable result of last year's business, amount to about 1,000,000 marks for the stockholders and 3,000,000 for the Government. I believe that both the stockholders of the Reichsbank and the Empire get in reality a much greater profit if the former receive 1,000,000 less and the Government 3,000,000 less, if thereby the rate of interest is permanently lowered to a considerable extent and the bank is not obliged to maintain such an abnormally high rate for the whole Empire, and, in fact, for everybody who is under the necessity of borrowing gold, as we have had the past winter. I believe, therefore, that in the course of ten or twenty years it will be possible to bring about a very substantial increase in the permanent capital of the Reichsbank and in its surplus, and that this could only be an advantage and not productive of any mischief. The second question I shall reserve for later discussion.

Doctor WAGNER. Gentlemen, I am greatly tempted, after several of the speakers who have preceded me have gone beyond the bounds of the subject that is our imme-

diate concern, likewise to enter into a discussion, more or less searching, of the various questions that have been included in the other departments of the bank inquiry. I propose, however, to resist this temptation as far as possible and permit myself only one or two brief remarks in response to the broad utterances that have been made here to-day.

The main question that has led us to institute this bank investigation is one that pertains to the rate of interest and the matters connected with it. The main question is bound to be: What are the conditions that have induced the inordinately high rates of discount? With regard to this, I wish to declare briefly that I am in accord with what Freiherr von Gamp has said on the subject, namely, that we have had an extravagant extension of credit. This extension of credit, however, is in no way, or at most in a very indirect manner, bound up with the activity of the Reichsbank. In this matter, as far as banks have anything to do with it, I must say that I can not regard the stock banks as wholly absolved from responsibility. There would be no object in giving my reasons for this opinion at the present moment. We expect to have an opportunity in the fall to discuss these matters further.

I must express my belief, however—and in this I agree with Herr Kaempf—that even if mistakes may have been made by the stock banks and the purely private concerns, a great mistake—I shall not say the chief mistake, but a great mistake—was that involved in our financial policy in the enormous and altogether too rapid extension of our imperial, state, and municipal indebtedness. This mis-

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take, to be sure, in the case at least of the Empire and the States, and to some extent also in that of the municipalities, is mainly to be attributed to the circumstance that all these political bodies have been too weak and dilatory in developing their taxes. What is responsible for this, especially in the case of the Empire, it is not my business to explain just at present.

I shall now take up briefly the mooted question of the nationalization of the Reichsbank. As far as this is concerned, I am perhaps more committed than any of the German theorists on such subjects to the nationalization of great economic undertakings. I go further—indeed I shall not deny it—than all of my colleagues of the school known as *Kathedersozialisten*, and I am disposed to consider that in a number of cases we should act more wisely in nationalizing and municipalizing such concerns as are specially adapted to a process of this kind than to leave them in the hands of large banks and stock companies, which but too often results in our having private monopolies of a dangerous sort. Nevertheless, as far as the Reichsbank itself is concerned, I can not deny that I feel some hesitation. A close intimacy with financial matters, indeed the whole history of banking, shows us that after all there are some valid objections to banks that are purely state institutions.

As a matter of fact, are we sure that through the nationalization of the Reichsbank we should be creating essentially different conditions? We might as well be clear about it. What is the Reichsbank if not the successor of the Prussian Bank? Like the latter it is a national bank

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as far as its entire management is concerned. From the president down to the lowest employee its officials are all state officials, and consequently the principles of national administration are already asserting themselves in its management. Granted that the central committee of the Reichsbank does represent certain private interests, it is nevertheless not the final court of judicature, and certainly not a court of exclusive jurisdiction.

This question of nationalization is therefore merely a question of capital. Financial considerations would, to be sure, have to be weighed, but they play in reality but a small part in the matter. If you compare the sums which the shareholders of the bank have received on the one hand and the Government on the other, it will be hard to deny that the Empire has not fared badly.

What would be the result if we were to nationalize the bank completely, even with respect to its capital? Under existing conditions it would cost the Government at least 4 per cent if it were to create its own capital for the bank, as loans for an equivalent amount would have to be issued. The bank could not be established on the general credit of the Government. The dividends of the Reichsbank have averaged in the last seven years about 7 per cent, which would mean a gain to the Government of about 3 per cent; that is to say, on 180,000,000 marks the sum of 5,400,000 marks, or, in round numbers, 5,500,000. Such an amount, considered relatively to the needs of the Government or in any similar way, is a mere bagatelle. This could certainly be no criterion in deciding the question of the nationalization of the bank capital. Natur-

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ally, I prefer to see the Government have the 5,000,000 rather than the shareholders, but the matter is altogether too unimportant.

Now, if we have to meet the argument that the constitution of the Reichsbank is in every way such as to cause many banking and commercial interests to be represented in it, which would cease to be the case if the institution were to be completely nationalized, we shall find there is still some other way out of the difficulty. Just at the present moment this does not especially concern us, and does not call for more than a word from me. Even in the case of a national bank, pure and simple, it is easily possible that the idea would be entertained of creating a central committee consisting of representatives of economic interests in general. On the other hand, in the Reichsbank, as we have it at present, a system of the representation of interests could be devised differing from the existing one. I do not consider such a thing impracticable. It appears to me at all events a less difficult and less momentous matter than a complete nationalization.

Finally, we can not leave out of account certain factors of an international character which with reason have been adduced in evidence. There are certain advantages in this very matter of having the Reichsbank, as far as the capital is concerned, organized as a private bank. This was recognized in the case of the Bank of France, in the years 1870 and 1871, at the time of the war.

In spite of all this I could easily be reconciled to seeing the Reichsbank converted into a national bank; but, as I have said, this is a relatively subordinate question, for

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what the institution is capable of doing as a national bank it is doing now, and therefore all I have to say is that we had better drop this question.

I have now come to the questions with which we have actually to deal, and in particular to the question of the enlargement of the bank capital. You will excuse me if I am going to treat this question in what may appear to you a somewhat doctrinaire fashion. I must start out by asking: What purpose, as a matter of fact, does the capital of a bank serve? I believe we can say in a general way that it serves two purposes. Its purpose is first of all and above all that of a guaranty fund, and in the case of various kinds of banks, as far as their activities are concerned, this function is solely, or almost solely, to be considered. I include herein the small banks of issue, the ordinary banks of deposit, in so far as this branch of business is carried on separately by them on the basis of incurred liabilities. To these I must add mortgage banks of every kind, whose actual capital, as far as it exists, is in reality nothing more than a reserve. The course of events in this country, in England, and elsewhere, bears out this view in many ways.

On the other hand, there are a number of cases where we are compelled to admit that the conception of capital, both from the standpoint of theory and of practice, as merely a guaranty fund, is inadequate. There are, in the first place, the stock banks, whose principal aim must be the utilization of their own capital; and secondly, those large central banks, essentially the banks of issue, such as they have come to be in the progress of

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European banking. These banks have, of course, important general functions. Their chief task is to regulate the circulation of the currency. In order to do it they must command sufficient resources of their own. Such a bank must furthermore, in behalf of its own security, be in a position to meet greater demands than a less important bank; it must stand as firm as a rock. It will thus be evident that the amount of the capital is not altogether an unimportant factor, and I believe that the development which the Reichsbank has had from its inception down to the present time argues that the question of the augmentation of the capital is at any rate worth discussing. I have just been making a little computation, a comparison of the first year of the Reichsbank, 1876, with the past year, 1907. I find that in the former year, as against a capital of 120,000,000 marks, there was a sum of about 900,000,000 marks (possibly even more) of cash liabilities in the way of deposits and bank notes in circulation. The ratio was therefore about 1 to 7½. At present we have a capital of 180,000,000 marks as against a round sum of 2,000,000,000 marks (even somewhat more) of cash liabilities represented by bank notes, deposits, and credits of the Imperial Government, the ratio being therefore 1 to 11 or 11½. It is evident, therefore, that the capital of the bank, in spite of the increase, has been materially reduced, relatively speaking, in its capacity of a reserve.

But it will perhaps be asked whether it is fair to institute a comparison between the capital and the amount

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of bank notes, deposits, etc. In the first place, it is necessary to deduct from the sum of the liabilities the amount in cash resources. Still it appears to me that there ought to be a certain ratio between the capital and the total of all other liabilities such as obtains in the case of mortgage banks between the paid-in capital and the amount of the debentures, as well as in the case of many central banks of issue. Furthermore, on the basis of another computation, if, after deducting the cash, I reckon only the uncovered bank notes, deposits, etc., I find that the actual condition has been growing worse, and that in an increasing measure. In 1876 there was a paid-in capital of 120,000,000 marks, and the uncovered cash liabilities amounted to about 349,000,000 marks which was approximately (not precisely) a ratio of 1 to 3. In the past year, 1907, the capital was 180,000,000 marks and the uncovered cash liabilities amounted to 1,200,000,000 marks, which is a ratio of 1 to 6 or 7. (These are merely round numbers, as I have been taking lump sums.) Thus it appears from this standpoint also that the importance of the capital in its capacity of a reserve fund has relatively diminished. This argues that we ought at least to consider whether it might not be advisable to add to the capital in order to increase its efficiency as a reserve. Even here, however, I am bound to confess that the question does not impress me as a matter of great importance, either from the standpoint of theory or of practice.

If, on the other hand, we have to consider the capital in its capacity as a fund for doing business—this is indeed

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the essence of capital in so far as it is needed for ordinary transactions, the sums required for discounts being supplied mainly by the issue of bank notes, but drawn in part also (as in the case of loans on collateral) from the deposits and other available funds and to some extent from the capital itself—we must admit that it is of advantage if the bank has a larger fund in the way of actual capital available for ordinary business, and this, of course, irrespective of the effect of the increase upon the rate of discount or the methods pursued in the business of discounting notes. In regard to this matter entirely different factors have to be considered, and here, if I may be permitted to express my opinion as a mere theorist, I would say that the view propounded by the president seems to me essentially sound. But this much I think you will have to admit—the member from Reutlingen has just expressed himself again strongly on the subject and we have heard the same thing repeatedly before—that an improvement in the position of the bank is pretty sure to result from an enlargement of its capital.

If we look at the capital merely with reference to book-keeping, we may regard it as a fictitious item on the side of liabilities, while notes in circulation and deposits represent actual liabilities; that is to say, sums payable on demand without notice.

I must admit here also that through a merely moderate increase in its capital the position of a bank can not, taking it all in all, be very materially altered. Still some advantage must result from it. In one respect I can not fully agree with the gentlemen who have been representing the

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practical side, but perhaps I have not fully understood them. Let us assume that the capital was increased by 50,000,000 to 60,000,000. This would not amount to a material change in the condition of the Reichsbank, but nevertheless it would be a perceptible improvement. Let us suppose that the fresh capital is paid in in gold. Then for the time being the bank will have increased its supply of gold, and it will thus be in a position to issue an additional amount of bank notes equal to three times the amount of the added capital (if it has the equivalent in bills besides). If, instead, the amount is paid in in bank notes, then the bank will have fewer notes in circulation and this item on the side of liabilities will produce a more favorable showing. Or suppose the amount paid in for capital is transferred to the bank out of the deposits. In this case also the bank will have smaller liabilities. This is an advantage at any rate.

Now, the gentlemen, especially Herr Fischel, if I have rightly understood him, have been reasoning in such a way as though in the case in question the sums which have been made over to the bank through transfers from the deposits and in other ways were tied up. This is by no means the case. The sums that are paid in go in part through the same process as other cash resources. Of course it is conceivable that there might be temporarily a slight unfavorable effect upon the money market, but it would not by any means be a lasting one. The money is not going to remain inert in the bank. It will either make it possible to increase the issue of bank notes, or else it will enable the bank to increase its credits without the neces-

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sity of augmenting its other liabilities. There is more or less advantage resulting from this. But, I must reiterate, it is not sufficiently great to settle the question before us in my mind unreservedly in favor of an enlargement of the capital.

My view of the matter is in accord with the opinion expressed by several of the gentlemen here assembled to the effect that if we are to legislate in this matter our enactment should be framed in some such way as to give to the Reichsbank, with the sanction, of course, of the authority concerned—the Bundesrat—the legal right to increase its capital whenever its managers, as a result of experience and after carefully weighing the circumstances, shall decide that the time is proper and opportune, without providing, therefore, in advance for a positive increase. With all this, I can not regard the question of the enlargement of the capital as more than a relatively subordinate one.

I have still to make a brief remark regarding a comparison with the great banks of other countries. It is a matter that has been already brought up in the previous sessions of the commission and one about which I have once spoken myself. Permit me for a moment to compare what we have here with the banks of the countries that are of most importance to us—England and France. It is correct to say that in a strict sense the freely disposable capital of the Bank of England does not exceed £3,500,000. To this must be added the so-called “rest,” amounting to about £3,000,000, or about 60,000,000 marks. This would together amount to about 130,000,000

marks, or not much more than one-half of the sum of our paid-in capital and surplus. But in this connection we must remember that Germany is in a much more unfavorable position. She is in need in every direction of firmer supports for her credit, and in particular in what concerns her banks, so that in the case of the Reichsbank an increase in its own resources can not fail to be a good thing for us. As a matter of fact, we have this advantage over the Bank of England that we have our entire capital available for the purposes of business instead of having a great part of it tied up, as is the case with that institution.

With respect to France the matter is not very different, but in France likewise the general situation is more favorable than in Germany. If we consult the political horoscope we shall perceive that France has, in the worst case, her front exposed in only a single direction. How much more unfavorable is our situation in this respect! We have, to say the least, two of our fronts exposed; indeed, possibly three, and perhaps even four. These are circumstances that have to be taken into account.

Mr. MOMMSEN. France is not so secure as all that, either.

Doctor WAGNER. At present, when the relations with England are so satisfactory, you can hardly say that. It is practically on her eastern front alone that France is exposed, while it is beyond a matter of doubt that we have to reckon on having certainly two of our fronts exposed, and perhaps even three or four. In the face of this, I think we ought to admit that we have got to go our neighbor a few better when it comes to safety precautions.

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All that I have said, then, amounts to this, that the question is at any rate worth considering. It is not a very important question, but still we may have to consider the advisability of an enlargement of the bank capital, in which case it is my opinion that the best thing to do would be to let the management itself have a virtually decisive voice in the matter.

Just one word more about the surplus. In this matter likewise our practical thinkers can be made to understand that it is possible in a way to treat of the surplus from a theoretical standpoint also. In my opinion, we should recognize three distinct functions as appertaining to it. In the first place, it serves as a security against actual losses; secondly, it can be made to serve for equalizing the dividends, as is the case with other banks and stock companies; thirdly, it may serve as a fund from which permanent accessions may be made to the capital.

As far as losses are concerned, that is not an important factor with the Reichsbank. They are insignificant—no greater than in the case of the principal banks in other countries—if anything, smaller. This function of the reserve is consequently unimportant, but the second matter—the equalization of dividends—that is important. I am aware that this subject does not exactly fit into the debate right here, but there can be no harm in discussing it.

Gentlemen, do you consider it desirable that the dividends of the Reichsbank shall go on fluctuating as they have done in recent years, from 10 or 11 per cent eight or nine years ago down to 5½ per cent, rising again at the present moment to nearly 10 per cent? This is the all-

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important point. It is for this reason, by the way, that in my judgment bank shares are not well adapted to the needs of private investors belonging to the lower and middle classes. They can not permanently retain such stock in their possession. They are either obliged to be forever buying and selling them, or, in other words, engaging in stock speculation, or else they have got to submit to changes in their income such as it is not easy for them to put up with. And the thing is disadvantageous in another way, in that the rate of exchange is thereby made to fluctuate greatly. Had we not better make up our minds that it would be a very desirable thing to apply the surplus in a certain measure, as is done in the case of other institutions of the same kind, toward equalizing the annual dividends to some extent, in order that such fluctuations within the space of a few years may no longer be possible? This, in my judgment, is well worth considering.

Let us come, finally, to the third function, the service to be rendered by the surplus as a means of enlarging the capital. As far as I am able to see, all that can be said is that this function is at least something that well merits discussion on our part. Indeed, all of the members who have more or less kept aloof from the debate regarding the enlargement of the capital have been willing to admit that much. This is partially the case with other banks, and in the practice of England it has become a regular principle to start the joint-stock banks and like institutions with a small capital and to increase this capital gradually by drawing upon the surplus. This is a matter

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that might profitably be discussed with reference to the Reichsbank.

But it may be argued that in the case of the Reichsbank the share of the profits accruing to the Government might thereby eventually be greatly curtailed. It is not necessary, as a matter of fact, to make the amounts very large that are set aside annually. But it would be well, even so, to try to avoid entailing any financial loss to the Government on the one hand, and, on the other, reducing too greatly the dividends of the shareholders. Suppose we say that we shall limit the amount that is to go into the surplus annually to a specific sum, say, two, three, four, or five millions. This would not involve very much of a change either in the revenue of the Government or in the position of the shareholders, and in this way the various other objections would be overcome that have been advanced by the opponents of an increase in the capital of the Reichsbank.

I will briefly sum up what I have had to say. The question of the increase of capital is to me a secondary one. In so far as valid reasons, such as have been referred to, can be adduced, an affirmative answer is called for, without, however, too much stress being laid upon the matter. This being the case, the directors should be accorded a greater voice in the decision, it being understood, however, that by means of the gradual accessions to the surplus, which might be used to equalize dividends, the capital is to be gradually enlarged. It would not be possible to give definite figures at this moment. The surplus at the present time is about one-third of the amount of the

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capital. Suppose we say, then, that the increase is to be up to one-half. This ought certainly not to appear excessive.

Another point is still to be considered. Objection has been made to the bank having so much real estate. Of course it has, and it is bound to have more and more. Its holdings already amount to 54,000,000 marks, which is about five-sixths of the surplus; that is how the surplus is invested. All that remains, then, of the surplus at present, not reckoning the real estate, which is not convertible into cash, is nine or ten millions.

The question as to whether this sum can gradually be increased in such a way that an increase in the surplus shall mean an increase in the capital, appears to me worth considering, and I would therefore suggest that every year, regularly, a further addition be made to the surplus until it is raised to one-half of the amount of the capital. I am all the more in favor of this limit inasmuch as there is such a large item, figuring without any writing off in the column of assets, that represents the value of buildings—buildings which, to be sure, undoubtedly have a greater value than is assigned to them in the entries in the books. I desire in this connection merely to call attention to the fact that the real estate of the bank, as it is not convertible at once into ready funds, constitutes a kind of asset that is not to be taken directly into account. I think I may as well close my remarks at this point.

Mr. SCHINCKEL. In order that we may not have any incorrect figures, I shall take the liberty of saying that I believe Herr Wagner has made an error in his calculations.

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The sum of 180,000,000 marks would not suffice for the nationalization of the bank, for there would be an additional 32,000,000 marks to which the stockholders are entitled. A 4 per cent loan, therefore, of 212,000,000 marks would be necessary, and consequently the gain in the way of interest would not amount to very much.

Doctor WAGNER. That is to say, instead of 5,500,000 marks we should have only 4,000,000 as the additional profit derived by the Empire from the complete nationalization of the bank.

The CHAIRMAN. Would the members like to take a recess?

(Assent.)

Then I will request you to be present promptly at half past 3, so that we may have a chance of getting through to-day.

(Recess.)

Doctor HEILIGENSTADT (proceeding to the order of the day). I should like to suggest that the members who desire be permitted to express their opinion immediately with regard to the second question. I believe we shall in this way get along much faster.

The CHAIRMAN. I have nothing to say against this, especially as I think there will be more or less unanimity with regard to this second question, one that will have to be discussed essentially from a practical standpoint. I will request the members, however, to express themselves as briefly as possible, so that we may have a chance of getting through to-day.

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Mr. MOMMSEN. As regards the first question, I am glad to perceive from the exposition made by Geheimrat Wagner that in many respects his position is, after all, identical with that which we practical bankers have at all times assumed, to the effect that the nationalization of the Reichsbank is not practicable. However, this is not a subject for discussion to-day.

With respect to the capital, Herr Wagner says: "In the case of the ordinary banks of issue the question of capital is in itself immaterial. It is very different, however, in the case of the central banks of issue. We have put these in the same category with the big stock banks; that is to say, in the great bulk of their transactions they have to rely upon their own resources—their capital and surplus." I must confess that I absolutely fail to see why a central bank of issue has to be placed on a level with the large stock banks, and Geheimrat Wagner himself has given no reason for it. It is true, however, that in a bank of issue the liabilities and assets do not figure at all in the same way as in a stock bank, and when we examine the respective items the capital of the bank of issue appears simply as a reserve.

Now it is my opinion—and the same view has been expressed by the gentlemen who have been addressing you, whether they be advocates or opponents of the enlargement of the bank capital—that no really decisive reason for our proceeding at once to increase the capital has been advanced thus far, and in fact none is furnished by the last annual statement of the Reichsbank. As for myself, I must likewise confess that the matter

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does not appear to me to be of much consequence. If it be deemed desirable to draw upon the money market in order to provide a fresh increase in the capital of the Reichsbank, well and good. Let us not suppose, however, that the constitution or status of the bank will thereby be in any way affected. The members, furthermore, are all agreed that no effect will be produced with regard to the rate of discount.

Nevertheless, I do not believe that the increase is absolutely a matter of no consequence in its effect upon the money market. Such a proposition as that put forward by Herr von Wangenheim, who would double the capital and raise the money by means of small shares of 200 marks with such a system of distribution that only the middle classes and not the banks could subscribe, can not be deemed practicable. I can not see how Freiherr von Wangenheim is going to succeed in raising 180,000,000 marks in this way without disturbing the money market.

But even if we were to take a smaller sum, as my worthy colleague, Herr Kaempf, has proposed, say of 60,000,000 marks, we ought, in the existing situation, to think twice over the question whether we are willing to draw upon the money market unnecessarily for such a sum when, as a matter of fact, no practical result can be anticipated.

In regard to the question of the surplus, I have no objection to its being increased. If we examine the figures, we shall find that the real estate of the Reichsbank is bulking larger and larger. As far as I can make

out, this is partly the result of the circumstance that the bank, unlike other institutions, is not in the habit of doing any writing off in the matter of its real estate, and particularly of the buildings. In this way every rise in the value of the real estate is shown in the balance sheet, and thus the figures pile up. It might perhaps be feasible to introduce such deductions in the future. But at all events it would be found necessary by reason of the ever-increasing figures of the item in question to enlarge the capital of the bank correspondingly in order to avoid leaning more and more upon real estate, and the practical and proper way is simply to revert to the scheme of a surplus to which additions are made at intervals—in what particular way it is not necessary for us to strain our wits to decide at this very moment.

One of the experts has suggested the establishment of a sort of current-account surplus. This would, perhaps, be not altogether impracticable. Considering, however, the large sum with which we have to deal, it could hardly be of great advantage, and it would be much simpler to increase the surplus, and thereby give the working capital of the bank a chance to grow by successive steps.

Geheimrat Wagner has suggested that the surplus might be utilized for conversion into actual capital—that is to say, bank shares might be created out of the surplus, to be assigned gratis to the stockholders. I should not be in favor of introducing in the case of the Reichsbank a procedure of this description; something which is in reality unknown to our German law, or at any rate has hardly been practiced; something for which we should

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have to provide by special legislation, and, indeed, if we get to the bottom of the matter, it is quite indifferent whether the capital is 180,000,000 marks and the surplus 60,000,000 marks, or whether we raise the capital to 210,000,000 marks and make the surplus 30,000,000 marks. Looking at it practically, this whole matter is immaterial, and it is a great mistake, in my opinion, to allow ourselves to drift into such subtleties.

To express myself briefly with regard to the second question, I wish to say that I have no objection to the raising of the limit of untaxed bank-note circulation. It is a purely technical question whether it is desirable to curtail somewhat the amount paid into the Imperial Treasury through the 5 per cent tax on excess circulation. I am decidedly opposed, however, to the complete removal of the limitation of the untaxed issue of bank notes. In the expert opinion submitted to us it was proposed to allow an untaxed issue up to an additional 200,000,000 marks. I should consider that rather high. I think that for the time being we can put up with a considerably smaller amount, drawing the line, let us say, at 500,000,000 marks——

The CHAIRMAN. We have now 473,000,000 marks.

Mr. MOMMSEN. Or 550,000,000 marks. Just at the moment when we are enacting the supplementary bank law it looks rather hazardous on the face of it to place the limit of untaxed circulation too high.

Doctor HEILIGENSTADT. You will not be surprised to learn, gentlemen, that I am in favor of the enlargement of the capital of the Reichsbank, and it will certainly not

surprise those who have heard me express my views in public on various occasions. I can further point to the fact that I, as a representative in the Reichstag, was a member of the bank commission at the time of the latest renewal of the charter, as well as of the subcommittee created on that occasion, and that I was energetic in advocating the latest increase in the capital of the Bank. I may say, indeed, that I had more to do than almost anyone with the establishment of the present higher capitalization. As I was a member of the Reichstag and had a close knowledge of persons and conditions, I should just like to make it emphatically clear in a few words, in rebuttal of what Director Ströll has stated—my worthy colleagues Müller (from Fulda) and Raab, sat with me in the committee, the former also in the subcommittee—that we were on that occasion in no way influenced by parliamentary considerations in advocating an increase of capital.

Mr. RAAB. Quite correct.

Doctor HEILIGENSTADT. That is what Director Ströll asserted this morning. I assure you there is nothing in it. I have since expressed myself in regard to the questions now before us in an address before the Landesökonomiscollegium, and finally in a publication which has been rather severely criticised by the press. Neither the journalistic attacks, however, nor the occurrences that followed have convinced me of the incorrectness of my views.

I am in favor of an enlargement of the capital, and that up to at least 200,000,000 marks; a little more would perhaps be preferable. I am also of opinion that the surplus should once more be open for a further increase and

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that it should never again be automatically shut down, but that, on the contrary, a special enactment should be requisite for the closing of the surplus. At all events the shutting down of the surplus ought not to be an automatic operation.

You have heard it stated here this morning—and the same thing recurs frequently in the expert opinion that has been prepared for your benefit—that the increased capitalization does not in reality mean an actual accession of fresh capital to the Reichsbank. Herr Fischel has expressed a similar view. I am of an entirely different opinion. The prime question is not how greatly or how little the bank may be temporarily affected by the increase in its capital. The main thing is what will be the result in the long run. In my paper I contend that the addition to the capital of the Reichsbank ought to come out of the freshly created capital, this new capital being gradually laid aside and held in reserve. This is the all-important point with me. I do not mean to restrict the present capital market, but I propose that part of the new capital created by our national industries shall be set aside so as to constitute a mobile fund.

The notion that there would be permanently an increased stock of commercial paper in the hands of the bank as the result of an increase in its capital, I regard as altogether baseless. The permanent increase in the amount of paper is not to be counted on for this reason alone, that the bank is not in the habit of extending its credit limit to its customers merely because they are subscribers to its stock. The individual customers will simply be allowed their

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former credit. Gradually the extraordinary credits will have to be covered, and this will have to be evinced either in the return of the bank notes in circulation or in an increase of the cash on hand. In the way of a supplement to the remarkably convincing exposition made by Doctor Arnold in the Bankarchiv I have myself dealt with this question again in my paper, and I am rather surprised to encounter the same old prejudices in this assembly.

As far as I can recollect not a single one of the gentlemen has declared himself to-day opposed, as a matter of principle, to the enlargement of the capital of the Reichsbank. Some have said that they regard it as a thing having no bearing upon the situation or too little to recommend it on the score of utility, but no one has declared himself squarely against it. On the contrary, Director Ströll and Herr Kaempf have admitted that an enlargement of the capital might have the effect of augmenting to some extent the volume of business; that it would not be altogether unimportant with respect to the business done by the Bank in the way of loans on collateral; and that it would be specifically warranted with respect to the real-estate investments of the Bank. Herr Mommsen has expressed himself in similar terms regarding this matter.

For my part, I should like to point out the groundlessness of the intimation made by Herr Fischel that in advocating an increase in the capital of the Bank I may possibly have been influenced by the idea that a more ready granting of credit might thereby be secured. This is not the case. My main reasons for an enlargement of the Bank's capital are based upon altogether different consid-

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erations, considerations issuing from the realm of political economy. Even the possible increase in the amount of gold held by the bank as a result of increased capitalization I regard as a secondary matter. I am aware, to be sure, that an increased capitalization can not fail to have its effect upon the quantity of gold in the hands of the Bank—of course, relatively speaking—and that in the sense in which I take it, it is bound to have more or less effect, according to the circumstances, upon the rate of interest in the country.

To me it seems preposterous, in the discussion of this question, to be constantly making comparisons with foreign countries. They have been a peculiar feature of the testimony of the experts, and in our discussion to-day such comparisons have likewise been made by a number of the members. Of course, it is our business to make a careful study of the conditions abroad if we desire to make the necessary deductions therefrom, but there is no use in attempting to make close comparisons between the conditions here and there. We can not institute a comparison between the Bank of France or the Bank of England and the Reichsbank. The status of the bank, its whole organization, is altogether different. Besides, the central bank of issue constitutes nothing more than the apex of the credit system of a country, and we are aware how vast is the difference between the credit systems even in the case of England and Germany, or, say, France and Germany. It is only from the conditions prevailing in our own country that we can draw the needed inferences.

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As far as I can make out, no one, none of the experts at least, has really got down to the kernel of the matter under discussion, and even the gentlemen who have spoken to-day have not, I am convinced, touched upon the essential facts underlying the conditions with which we have to deal. The only one of the experts who, as far as I can see, has dealt with the economic aspect of the situation—and he has not gone below the surface—is Professor Pohle. I was not present at the session, but I have gathered from the stenographic report that Professor Pohle has at least touched upon this general problem.

All these questions, gentlemen, which have engaged our attention have so strongly taken hold of the mind of the public only by reason of the melancholy showing which credit conditions and the financial situation have made in our country. I am certainly not one of those who believe that economic crises can be rendered altogether impossible. It does seem to be practicable, however, to reach the point at which, through proper regulation of credit conditions and the like, we may succeed in materially reducing the shocks produced by the heavings of the economic disturbance.

I must add that I am naturally not of the opinion that it is practicable to do away entirely with these undulatory movements, in as much as this can be effected in no other way than through the transition to an entirely different system of production. So long as production is carried on by private capital we shall have to reckon with periodical fluctuations, high tides of busi-

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ness followed by subsidence of the tide. It makes a great difference, however, whether the tide carries us up to a boiling point, to be followed by widespread collapse, or whether the fluctuations run their course within comparatively narrow bounds.

The whole question before us—and this is an argument in favor of an enlargement of the capital of the Reichsbank—is not a gold question, as indeed it is not a money question (as Herr Fischel has rightly stated this morning); it is a question of capital.

It is my conviction that in this matter of the monetary system and of credit, whether viewed from a practical or a theoretical standpoint, we are passing through a transition period. The thing is perhaps somewhat irrelevant, but I should like to point to the fact that our theories too are shaping themselves in accordance with new notions and ideas, as is evinced by Knapp's book on a new theory of money, which I am sure is going to be a landmark in theoretical knowledge. Within the past twenty or thirty years a system of manufacturing industry has been developed in this country, which, with respect to the scale of production, has attained much greater proportions than is the case, for example, in England. In England there is a much larger number of minor concerns, but we do not find in all the various branches of industry such giant concerns as exist in Germany and the United States.

Now, if we ask ourselves what the state of the money and capital markets is in reality, it becomes absolutely necessary in the first place to get a clear conception in our minds of the manner in which production is carried on

under existing conditions and then to try to ascertain the relation which our productive industry bears to the money market.

I shall have to ask for your indulgence if I take the liberty at this point of engaging in a little theoretical exposition, but it is precisely these theoretical considerations which I am going to urge that are behind my own views respecting the necessity of a larger capitalization. This applies also to many other reforms that I consider essential under existing conditions, such as they have developed under the stress of the modern scale of industrial and financial enterprises, if we desire our national industries to go on expanding and attaining the higher levels in a peaceful and orderly way.

Our productive mechanism, as some one has happily expressed it, moves along in the manner of an army on the march, in successive stages from halting place to halting place. That is to say, not every producer produces an article ready for use. Before it is ready for use an article has to pass through a number of hands, each worker proceeding with the manufacture from the stage at which his predecessor left off. To the extent that capital represented by such more or less finished articles enters into production, it is part of the working capital of our industry. You may find fault with my way of expressing it, but the precise terminology is immaterial. The only question is whether I make my meaning clear.

The aim of productive industry is either the production of objects of consumption or the creation of fresh capital to be used for further production. What concerns the

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problem before us most vitally is the relation existing between productive industry and the money market. It is evident that to all industrial operations in which capital passes from hand to hand instruments of exchange and financial transactions are necessary. Even in cases where credit is not called for, industry makes inroads into the money market through its demands for instruments of exchange. At the present time, indeed, and especially in Germany, production is largely based upon credit. Manufacturing industries are to a very great extent carried on by means of credit, and it is only this morning that Herr von Wangenheim declared—and Herr Schinckel seconded him—that production has been carried on altogether on too large a scale through the instrumentality of credit.

In so far as credit enters into production, the process that takes place is as follows: In the commercial market goods pass from hand to hand, and alongside of this process of exchange in the commercial market there is going on in the money market an exchange of credit instruments based upon these very products of industry which are in circulation. This reciprocal action of the commercial market and the money market is a continuous one.

Now, so long as capital circulates in the industrial field in the form of working capital, what takes place is, that in the demand for credit, for every exchange of wares, there will be a corresponding transaction in the money market. This is shown in actual business by the fact that the goods are sold against the acceptance of a draft, which draft is met when the goods are resold against another acceptance. In place of the old draft there is (at least there

ought to be) always a new one. And therefore, in the money market, parallel with the movement in the merchandise market, an exchange of credit instruments is incessantly going on. This process of exchange continues until the property has reached its destination in its capacity of working capital, or, in other words, until it has lost its quality of working capital, and is either consumed or devoted to the purposes of fixed capital. In case of consumption, the property has to be paid for out of wages, out of hire for services of every kind; that is to say, the respective bills are, and can be, redeemed from this source.

But when the industrial product is transformed into fixed capital, then the economic process in the money market is a very different one. The essence of fixed capital—and it is in this that it is distinguished from working capital—is, among other things, that in its utilization in production it enters into a business transaction not with its full value but only in larger or smaller shares. Fixed capital in industrial operations is capable only of yielding what is called revenue or interest.

But at the moment that the working capital is being converted into fixed capital there are circulating in the money markets demands in the way of bills covering the entire value of the property, and these demands have got to be met. As the fixed capital yields nothing but interest, it is imperative to resort to other sources to cover the bills as they fall due, and so the necessary capital has to be raised through savings from previous earnings or the accumulated profits in the shape of interest on fixed

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capital; that is to say, the amount required in the way of capital must already, in the form of savings, be in existence in the money market.

Now, if you weigh all this carefully and apply these theoretical deductions to the actual conditions in Germany, it will become evident that in recent years we have made very large investments of capital, the equivalent for which had not been supplied in the form of savings. Our fixed capital, as Herr Fischel has pointed out, has in a very great measure been created through the agency of borrowed money.

There is still another phase of the matter. In substantiation of my views on the subject I would refer you to the discussions that took place at the time of the debate regarding Questions II and III, when the experts Herr Leiffmann and Herr Fischel confirmed the opinion expressed by me to the effect that there are, as a matter of fact, frequent so-called "financial disturbances" taking place in the train of regular and legitimate commercial transactions.

The greater the general upward tendency, the more each producer strives to increase the rate of production. A producer, for example, who usually takes three months to make an article pass through one stage in its manufacture will do his best to reduce the time by means of overlapping and every possible expedient. But still, as before, owing to the rigidity of mercantile custom and the usages of deferred payments, a bill at three months' sight is issued on account of the goods in question. As a result of this, where under normal conditions a single bill would be

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circulating in the money market on account of some particular article, there will now be two or three bills in circulation. All of these bills find their way to the banks, are discounted, and then figure for a time in the balances of the banks' customers. The banks are obliged to put out at interest the amounts thus credited to their customers. I do not mean to blame the banks for making these investments. I have no ill feeling toward the banks, just the reverse. The banks are compelled to do it because they are obliged to render these large apparent credits productive by making them yield interest—credits which in reality have no actual foundation, not being based on anything. The way these credits are made productive by the banks in the existing organization of industry in Germany (where we produce altogether too little capital relatively to our spirit of enterprise) is in great measure through investment in the way of fixed capital.

I must conclude from all this that we Germans have been in the habit of setting up as capital that which in its nature is not adapted to the purpose, which ought not to be capital at all; and that we are trying to get along with altogether too little working capital. From top to bottom, from the great banks down to the smallest ones, it ought to be the business of these institutions to try to make a change in all this, to see to it that a proper relation is established, that we may be in a position to work with a considerably larger working capital.

It is, of course, difficult for an individual institution to do much in the way of hastening a change, and the representatives of the banks have repeatedly insisted that they

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were under the stress of competition. I realize this, and if I were at the head of a big bank I should allow myself to be guided entirely by the interests of my bank and those of my shareholders—in plain words, by business considerations. This is—I am willing to proclaim it publicly—the duty of the business man. But the moment we place ourselves on the broad standpoint of political economy, from which it is our purpose to view the problem before us, then I am convinced that this is not a matter in which the will of the individual should be allowed to have its way, but that, on the contrary, it is incumbent upon us to devise some system, possibly through legislative means, that will have the effect, without injuring the banks, of increasing our working capital and of enabling us to retain in that form a considerable portion of our newly created capital.

You see, gentlemen, that in the existing organization of business in this country only such capital as finds its way into the Reichsbank is disposed of in a way to give us no real concern. Such capital alone is preserved under all circumstances in the form of working capital. Considering the importance of the subject, it seems to me imperative for us to try every means to secure for our industry a greater share of capital in the form of working capital, and for this reason I regard a material increase in the working capital of the Reichsbank as absolutely indispensable.

I realize, indeed, that the enlargement of the capital of the Reichsbank is merely a minor means, one expedient among many others that in the existing organization of

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our monetary and credit system it is necessary for us to adopt in order that we may enter into the proper path and continue in it. I believe that we should have recourse to various other expedients that might be found effectual by the side of an addition to the bank's capital, but it is not our purpose to discuss these matters to-day.

To sum up briefly, then, I am persuaded that the enlargement of the capital, with respect to which the attitude of most of the speakers who have preceded me is one of indifference, is desirable and that the increase should be a substantial one, and furthermore I am of opinion that additions should be made from time to time to the surplus.

As to the other question, that of raising the limit of untaxed bank-note circulation, I personally lay no stress upon it, as I believe that the matter of this higher limit, whether it be instituted or not, will in reality never become one of practical importance, provided that we take measures to establish a just proportion between fixed capital and working capital. It may eventually become a practical question if our industry should increase very materially, which all of us, of course, would like to see. It would then be advantageous, in order to enable us to tide over certain times of unusual strain, such as recur at the end of the year and in the month of October, to raise the limit of untaxed circulation. But I believe that when we have provided for the proper organization of capital with respect to industry and the credit system the question of fixing a limit will settle itself.

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Doctor LEXIS. Gentlemen, I shall also express myself briefly, and, first of all, I shall take the liberty of making a few remarks with reference to what has been said by President Heiligenstadt. I am likewise decidedly of opinion that the working capital of our industrial concerns in Germany is really too small; that it would be much better to do business more with our own money and less on credit. This applies, of course, especially to those concerns which turn out manufactured products, as well as to stock banks. In the case of a bank of issue, on the other hand, this requirement appears to me to be least essential, even if it is not altogether inapplicable. In this matter it would be well, in my opinion, to consider what takes place abroad. We see plainly that in England and France the large central banks exist and that they operate admirably without having in reality any actual working capital of their own. Their working capital may indeed be designated as a minus quantity. The Bank of France, for example, has a nominal capital of 182,500,000, but it has 290,000,000 tied up in fixed rentes or in the permanent advance of 100,000,000 to the State. The working capital remaining to the bank is therefore a minus quantity. The same is the case with the Bank of England. Here, too, we find a negative working capital. It is not merely the old debt of £11,000,000 that is tied up, but likewise the whole amount that is required in addition in order to cover the note circulation in the issue department, an amount equal to £7,500,000, inasmuch as the consols that are deposited there can not be withdrawn, and consequently are not at the disposition of the banking department. We

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have therefore £18,500,000—that is to say, a sum reaching to the permissible limit of uncovered bank-note circulation, as against a capital of £14,500,000, exclusive of the so-called “rest,” which embraces some £3,000,000 in the way of a surplus, or, in all, £17,500,000 of capital and surplus, while the amount of the fixed capital, partly in the shape of irredeemable obligations and partly of unnegotiable consols, is £18,500,000.

In these two countries, then, we have an illustration of how banks perform their operations with those resources only which they secure through the issue of bank notes, and, in the case of England especially, through the acceptance of deposits. We have not got so far in Germany, and this is assuredly not a matter of regret. Our Reichsbank has actually no part of its entire capital tied up. It is all in an available form, and if the bank temporarily invests considerable sums in national obligations, these do not by any means represent unnegotiable funds, as they are capable of being disposed of at any moment. The only portion that is tied up is that which is represented by real estate. This amounts to 54,000,000 marks. There remains, therefore, a surplus of 10,000,000 marks, which can be added to the capital of 180,000,000.

The position of the Reichsbank is therefore essentially a different one, and if this institution can not, as a simple matter, be compared either with the English bank or the French, this difference is not a matter to be considered here. The Reichsbank is in a much more favorable situation as far as the availability of its capital is concerned—that is to say, as far as the extent to which its operating

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resources are drawn from its own capital, and consequently I hardly think there is any necessity of increasing the capital of the bank.

Neither do I think that this would in any way bring about an increase in its stock of gold, nor do I believe that the rate of discount would thereby be affected. I concur, therefore, with the majority of the members who have spoken and who have declared themselves to be rather indifferent in regard to the whole question.

There is one point, however, that I should like to bring forward in support of an enlargement of the capital, namely, that the nationalization of the bank will thereby be made a more difficult matter. It will certainly be less easy later on to pay back the amount of the capital if it has been increased by 60,000,000 marks, especially if it is really proposed to carry out the scheme suggested in various quarters of admitting as shareholders investors of small means, with shares not exceeding 200 marks. The Government would hesitate, in the event of the nationalization of the Reichsbank, to force these small investors to sell out at 118 when they had paid 130 and upward for their shares. The nationalization, therefore, is rendered more difficult by an increase in the capital, and this, in my eyes, is decidedly an advantage. On the whole, however, I must admit that I am rather indifferent in regard to the matter.

I should furthermore like to express my approval of the proposition put forward by several of the members that it be left to the discretion of the managers to decide whether the time has come when it would be expedient, for what-

soever reason, to increase the capital. It would be practicable to insert a provision in the bank law allowing them during the next term of their charter (which I think should be renewed for at least fifteen years) free play in this respect, or, better still, empowering the Bundesrat to authorize at any future time, on the strength of the experience of the bank, an addition of a particular amount to the capital stock.

In regard to the surplus, I am also of opinion that it would be expedient to reopen the fund and to add to it every year a moderate sum (the amount to be fixed later), which is to serve mainly for the purpose of offsetting the constantly increasing investment of the bank's capital in real estate. New bank buildings are constantly being erected, each one finer than the last, which we are certainly glad to see, and the expense is constantly increasing. I should therefore recommend that steps be taken to offset this investment of capital by a corresponding increase in the surplus.

With respect to the second question, I am in favor of fixing a limit to the untaxed circulation of bank notes. I regard this as a very practical expedient for keeping speculation within bounds. I personally should consider a moderate raising of the limit as quite harmless—I would draw the line at 550,000,000 marks—the advantage to be gained being that the number of times that the limit is transcended in the course of a year will not be altogether excessive. In the past year the number was 25. By raising the limit up to 550,000,000 marks the number will be reduced, at any rate, by 10

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or 12. In this sense, therefore, I should consider the raising of the limit expedient.

Count KANITZ. As we are not going to discuss the question of the nationalization of the Reichsbank, I wish to say that I am in favor of a moderate increase in the capital. All the arguments that speak for it have been so fully set forth to-day by the various speakers that I may as well refrain from giving the reasons for my opinion. It would be mere repetition. But after such an authority on banking as Herr Kaempf has likewise expressed himself in favor of an enlargement of the capital, I think we may as well practically dismiss our misgivings in regard to this matter.

I have been particularly interested in the exposition made by President Heiligenstadt. His arguments, however, seemed to me so novel in many respects that I can not possibly undertake to enter closely into them to-day, and I shall reserve to myself the privilege of discussing them when the stenographic report is submitted to us.

I agree with Herr Mommsen and several of the speakers that the enlargement of the bank's capital is not going to bring about a healthier monetary situation. The means that we are applying is at best a slender one, and this in my opinion is also true of the raising of the limit of the untaxed circulation of the Reichsbank. In this matter, too, I can go no further than to say that I concur in the view which President Heiligenstadt has expressed, to the effect that he does not expect any actual relief to result from such a raising of the limit of untaxed bank-note circulation.

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I shall confine myself to this expression of my views, which I think will suffice for the present, as I expect to have an opportunity when the Reichstag takes up these questions to state my position more definitely. I declare myself, therefore, in favor of an increase in the capital. I do not believe in the efficacy of the raising of the limit of untaxed note circulation.

Mr. RAAB. I am likewise in favor of an enlargement of the capital of the Reichsbank. I also do not regard such a proceeding as something of world-wide importance, but it is my opinion that we owe it to the reputation of the Reichsbank to find means of preventing its being far behind other great banks with respect to its capital. Even outside of this consideration, however, which will naturally appeal to our patriotic spirit, I believe that some economic advantages would accrue from an increase in the bank's capital. In the first place, the bank, through an increase in its capital, will certainly be able to exert greater influence upon the credit market. This concession should be made, in my opinion, particularly in the face of happenings—I have in mind private discounting—which in certain cases have had the direct effect of crippling the discount operations of the bank.

I believe, too, that a larger capital will mean a better condition with respect to the increased business of the bank as well as the running expenses, its real estate, and its readiness to meet its current obligations. It appears to me possible furthermore—although I do not believe that an increase in the capital will result in an increase in the stock of gold—that, through the receipt of large sums in

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the way of foreign bills of exchange at specific times, the drain upon the gold supply to meet the demand from abroad might at least for a time be checked, so that the raising of the rate of discount could be averted or postponed. I am in favor of raising the amount of the capital to 240,000,000 or 250,000,000 marks, which would mean an increase of 60,000,000 or 70,000,000 marks.

Whether this increase is to take place at a certain time, or, as in the case of the last increase, be made in installments, is to be left to the discretion of the bank itself.

In regard to the distribution, I am in favor of issuing the additional stock in denominations of 1,000 marks. The proposition to issue the shares in small denominations of 200 marks does not appeal to me, inasmuch as the future of the Reichsbank is still an uncertain one. I can hardly imagine that the bank charter will ever be renewed for a term exceeding ten years. There is after all a possibility—the fact that there is a ban upon the discussion of the subject does not alter the matter—that the Reichsbank will be nationalized.

I am also in favor of reopening and strengthening the surplus, and likewise of keeping it open, as has been proposed by president Heiligenstadt, and furthermore of making its closing conditional upon a special enactment. My attitude in this is prompted by the same considerations as in the case of the enlargement of the capital. The surplus, just like the regular capital, offers an increased security in regard to the cash liabilities and a more effectual counterpoise to the investment (which will probably go on steadily increasing) of the funds of the bank

in real estate. I believe also that it would be a good thing to create a special reserve against possible losses.

Whether the scheme suggested by Geheimrat Wagner of making the surplus serve the purpose of equalizing dividends can be carried out, and in what way, I should not venture to say. I can say, however, that the idea appeals to me, especially as I should personally be glad to see the shares of the bank passing into the possession of the middle classes, whom I should naturally not like to see exposed to great fluctuations in the market value of their investments. I think that it would be practicable to raise the surplus gradually to the level of half the amount of the capital, and that this would be a welcome consummation. At the same time I believe that we ought carefully to consider the suggestion made in the course of this discussion by one of the experts to the effect that the increase in the capital of the Reichsbank should not be allowed to act to the prejudice of the share of the Government, but that the additional amount should be drawn mainly, if not entirely, from sums that would otherwise go to the stockholders in the shape of dividends. I consider it very desirable that our national revenue in this quarter be placed on a more substantial and favorable footing, and I see no reason—I expect the next few years to make a fine showing—why we should go on forever dealing out such big dividends to the stockholders as they have again been receiving this past year. The interests of the Government are certainly deserving of some consideration in this matter.

I am also of opinion that there is not much to be gained by raising the limit of untaxed circulation. In my

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view of the matter, however, I do not agree with that expressed in this assembly by one of the specialists, with whom I am otherwise generally in accord. Doctor Arendt has advocated the removal of the tax limit and the abolishment of the tax on bank-note circulation altogether. I hold the view, repeatedly expressed in this body to-day, that in this obligation to pay a tax we have a useful danger signal. If we can, by means of a moderately high limit of untaxed circulation, prevent the too frequent recurrence of a disturbance such as manifests itself each time the circulation limit is passed, that will certainly be an advantage. But I do not believe in doing away altogether with the warning which the passing of the circulation limit gives to those who are in quest of credit.

Another suggestion that has been made, and that by a specialist, is that the foreign gold bills be reckoned in the cash reserve. In my opinion this is impracticable and altogether wrong.

Another question worth considering is that of a progressive tax on bank-note circulation—the suggestion has been made and may perhaps come up for discussion later on—a tax adjusted to the extent to which the circulation limit is exceeded. In the case of an inconsiderable excess the imposition of a slight tax would perhaps suffice, but the tax should be made to operate progressively in such a way as to render a great excess of circulation beyond the regulation limit practically impossible. If we are to institute a progressive tax of this kind, it will have to be graduated so as to reach the point where it becomes prohibitory, in order to prevent us from landing we know not

where. But if such a progressive tax is to become a subject of discussion, we shall have to consider whether we can keep clear of causing a shrinkage in the imperial revenue derived from the tax on bank notes. Admitting that it was only an accidental circumstance that the amount realized reached such extraordinary proportions last year, I should not like to see such revenue, even if it is not to keep flowing in as plentifully as in the past twelvemonth, shut off from us just at the time when we have to be scurrying about for money in every nook and corner.

What I am in favor of, then, is the following: An enlargement of the bank's capital to 240,000,000 or 250,000,000 marks; a gradual enlargement of the surplus to one-half of the amount of the capital; the keeping open of the surplus; and a moderate raising of the limit of untaxed circulation, say up to the level of about 550,000,000 marks. This, it seems to me, would pretty much represent the views prevailing in those circles in whose behalf I believe I may in a certain measure be allowed to speak.

Freiherr VON CETTO-REICHERTSHAUSEN. When I was invited to come here, gentlemen, I took the invitation to mean not that I should come into your midst as an expert, but that I was invited to come as a representative of the agricultural interests, whose main function would be to set forth the attitude of the agricultural community with respect to the recent industrial depression and the means that have been proposed to remedy the situation, and it is from this standpoint that I have sought to deal with the questions before us.

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In the course of the hearing of the experts the assertion was made by Geheimrat Mueller that the enlargement of the capital of the Reichsbank will make it possible to give more extended credit to the agricultural class. The assertion was also repeatedly heard in this assembly in the course of the morning that in the extension of credit agriculture will have a share in the benefit in so far as it is not placed on a lower level than other pursuits. Now I should like to call your attention to the circumstance that agriculture is by no means directly interested to the same extent in the credit that is to be afforded by the Reichsbank as manufactures and trade. It could not, indeed, for a very plain reason, be otherwise, for, on the one hand, as I readily perceive—and my conviction is based on personal observation—credit granted on the security of personal property does not by any means play the same role in agriculture as credit based upon immovable property, and, on the other hand, in the case of agriculture credit based on personal property is in great part, and in fact in the main, provided for by the organs of mutual assistance which agriculture has instituted, such as the agricultural societies, whose activity has been centered in the so-called Preussenkasse, as well as in the establishment of loan associations—in short, provided for in such a way that the increased difficulty of obtaining credit from the Reichsbank, the enhanced rate of discount, affects agricultural interests rather indirectly than directly.

Starting out from these premises I can only repeat that agriculture is but indirectly interested in the matter that is at present engaging our attention. Having said this,

however, I am glad to be able first of all to repel the individual attacks, if I may use the expression, that have been leveled over and over again against the agriculturists. We have been charged with being unfriendly to the bank, with looking upon it as an institution which has been created to afford as much credit as possible, but which grants too little credit to agriculturists. Herr Helferich even imputes to the agrarians the design of laying violent hands on the Reichsbank in the way of nationalizing it. My esteemed friend Freiherr von Wangenheim has just touched upon this subject to-day, and if he has been disregarding the order of the day it will not be out of order to rebut his assertions.

I must first of all confess that I can not in this matter entirely concur in the views of Herr von Wangenheim, however closely I may be in accord with him in general. I ask myself, and I have repeatedly asked myself, what actual advantage would result from the nationalization of the Reichsbank, and this very day it has been asserted here with perfect justice that the whole administration of the bank bears largely a national character. The bank is managed by state officials, it is, so to say, under national supervision, and it would be no mistake to say that if the bank were to be nationalized right now the management could not and would not appear different or officiate differently from what it does to-day.

(Exclamations of "Quite right!")

But now, gentlemen, I have to ask: What can be the real advantage that would result from the nationalization of the Reichsbank? I can think of two arguments in favor

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of it. The first would be that we might thereby augment the revenues of the Empire; that is to say, that the entire profit of the bank, which now goes to the stockholders, would in future go to the Empire. My opinion is that we are dealing here, and shall always deal, with so small a sum in proportion to the imperial budget that it is well to consider seriously whether an institution so prominent in the domain of banking as the Reichsbank shall be nationalized and an experiment be made which, as has already been affirmed to-day, can by no means be regarded as devoid of danger. I need only point to the contingency of war or the lessons taught by other countries and their great banking institutions which have by no means been nationalized, but for good reasons have been left to private agencies.

It might be argued further that the Reichsbank as a state institution could, and probably would, establish a system of credit according to different principles and would consequently institute readier methods for supplying money than have hitherto been provided. This opinion seems to me to find vogue in various agricultural circles. I, however, personally hold the view that no credit institution of the nature and scope of the Reichsbank, be it under public or private management, can emancipate itself from the general influence of the money market. Experience has shown that the financial crisis which has come upon us these last years in Germany has been felt just as much elsewhere, that it has been felt in a country which we have hitherto regarded as the ideal of a banking community—England. We have seen, therefore,

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that the casual occurrences, pure and simple, have been of so decisive a nature with regard to any banking policy whatever that all the European banks had to bow before the actual facts. I am sure that the Reichsbank, whether it be nationalized or remain in private hands, will simply not be able to withstand the force of naked facts in the event of their recurrence.

Now, with reference to the nature of the relations existing between the agricultural interests and the Reichsbank, I should like to call your attention, gentlemen, to the fact that it is only the great landowners, and they only in a part of the German Empire, who are closely involved in the operations of the Reichsbank. With respect to this matter we have a most instructive document in the table which has been submitted to us, on page 33 of the first supplement to the statistics of the Reichsbank, an enumeration of those who have had credit relations with the Reichsbank in its discount operations, arranged with reference to their distribution according to the branches of industry. You will perceive that in the class of rural industrial concerns (workshops and factories) a disproportionately small number, to wit, 9,589 out of a total of 70,480 firms and individuals who have been entered, have been concerned in the discount operations of the Reichsbank, and of these 9,589 fully one-third represent the four eastern provinces, East Prussia, West Prussia, Pomerania, and Posen. In the Kingdom of Bavaria east of the Rhine the number was only 448, as against 2,246 merchants and 1,398 manufacturers, being 9 per cent of the total; in

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Baden, Hesse, Upper Hesse, and the Bavarian Rhine Palatinate it was only 222, or 5 per cent of the total; in Mecklenburg, Oldenburg, Brunswick, on the other hand, it was as much as 662, or 17 per cent; and in Schleswig-Holstein the number was as high as 1,123, or 36 per cent of the total. The territorial distribution seems to be largely determined by the factor of the relative positions occupied by the different parts of the Empire with respect to the general character of their industrial concerns in the matter of size.

It appears, then, that the conditions are extremely diverse, which, in my opinion, goes to prove the truth of what I have affirmed and to which I wish to add the statement that at the present time not only do the various rural cooperative credit institutions provide more effectually for the needs of agriculture than the Reichsbank, but that in particular the provincial loan institutions, the so-called *Landeskreditinstitute*—I may name particularly the Bayerische Notenbank—are made use of by the agricultural interests in much greater measure. This is not surprising, as these institutions find it much easier to extend their operations to the country, to go to small localities and do business there, than is the case, or can ever be the case, with the Reichsbank.

All this applies likewise to the business of making loans on collateral. At the close of the year 1907 the loans of this kind in the Empire connected with agriculture and allied industries numbered 249, representing an aggregate of 1,972,200 marks, as against a total of 5,666 loans, amounting to 364,297,700 marks; and on March 1, 1908,

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the number of loans was, as at the previous date, 249, aggregating 1,803,300 marks, as against a total of 5,650 loans, amounting to 255,687,100 marks.

Of greater significance, considered from the same standpoint, is the business of loaning money in connection with debentures, in which the loans made on the mortgage debentures of the *Landschaften* (provincial loan associations), the communal debentures, and the debentures of other associations organized on the model of the *Landschaften*, amounted to 12.2 per cent of the total amount of the loans. I desire to add that this is the result of concessions made to the agriculturists without any pressure on their part; and I should regard it as a quite unwarranted demand that the Reichsbank should go more extensively than it has done heretofore into the business of loaning on the debentures of the *Landschaften* and obligations of institutions of like nature. Whether the charge of illiberality made against the bank in this matter has any foundation I am unable to say from personal experience. As far as I am informed, however, I do not believe that it is open to such a charge.

There is still another matter to which I should like to call your attention, and that is, that the reason why, in comparison with the credit business of the Reichsbank, there is so much more of that kind of business done by the individual small cooperative funds, the agricultural credit associations, and also by the centralized agricultural credit institutions is because considerably greater inducements are offered to the agricultural classes than appears to be practicable in the case of the Reichsbank. Concerning

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this point I should like to submit to you some information taken from the report of the Bavarian central loan fund for the year 1907, which, however, applies as well to the savings and loan associations operating within the union of the German agricultural associations and which may be gathered also from previous reports of the union. The latest report of the union has not yet appeared in print. The report which I have, however, of the Bavarian central loan fund shows that the rate of interest on loans was raised on July 1 only up to $4\frac{1}{4}$ per cent and on November 1 to $4\frac{1}{2}$ per cent, while the rate of interest on current accounts was increased from $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent. "In order to offer the associations a higher rate of interest," says the report, "we inaugurated on July 1 a system of deposits on notice. The interest on deposits at two months' notice was from the 1st of July $3\frac{3}{4}$ per cent and from the 1st of November 4 per cent; and on deposits at six months' notice the rate was fixed at 4 per cent from July 1 and at $4\frac{1}{4}$ per cent from November 1.

"If in this matter of interest we keep pace with the rates of interest allowed on deposits by the large banks, it is because we are in a position to invest these funds more profitably than the current account funds payable on demand, which we can invest only in easily convertible resources."

Reference is then made to the discount operations of the Reichsbank, and the report continues:

"The average rate of discount in the case of private bills in Berlin in the year 1907 was 5.11 per cent. The average rate of interest on loans in the case of the Bavarian

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central loan fund in 1907 was 4.17 per cent. This rate therefore was almost 1 per cent lower on an average than that at which private bills were discounted by the banks during that year. The rate of discount at the Reichsbank was higher than that of the central loan fund by 1.86 per cent. The rate of interest at which the Reichsbank advanced money on the security of bank paper and merchandise was higher by 2.86 per cent; that is to say, nearly 3 per cent."

In the face of these facts, gentlemen, which are quite irrefutable, and which can be explained only through the circumstance that we have to deal here with means available for the purposes of credit which are of an altogether different character from those which the Reichsbank has at its disposal—that is to say, localized resources, if I may use the expression—we can readily understand that the interest of a great many of the agriculturists in the rate of discount of the Reichsbank is rather an indirect than a direct one—there being an indirect interest, in the first place, in so far as a higher rate of discount of the Reichsbank can not fail to bring about a rise in the rate of interest in the general money market, and, secondly, with reference to interest on real estate, because a high discount rate regularly has the effect of depressing the price of investments yielding a low rate of interest, especially mortgages, a phenomenon which we have witnessed on a large scale during the past year, so that the provincial loan associations, as well as other similar institutions, were reluctantly compelled to suspend practically making $3\frac{1}{2}$ per cent loans and to pass over to the 4 per cent

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type. It is hardly necessary for me to dwell upon the important bearing which this matter has on the interests of agriculture. The most recent official inquiry regarding the returns of capital invested in agriculture, which was instituted by the Department of the Interior at the time of the revision of the tariff, has shown that the concerns yield on an average at most between 2 and 3 per cent. Now, when a concern yields between 2 and 3 per cent on an investment and money has to be borrowed at 4 or 5 per cent, there must evidently be a deficit.

I do not pretend to maintain that this higher rate of interest falls with full force upon the borrowing operations to which agriculture is compelled to have recourse, for the working capital of agriculture must necessarily yield a higher rate of interest than the investment capital, and in addition to this it is possible out of part of the investment capital (namely out of the live stock and farm implements) to offset the higher rate of interest which is demanded on the sums advanced on personal property. In the case, therefore, of temporary credit requirements, which correspond to the credit requirements for the sake of which the manufacturing industries are obliged to have recourse to the Reichsbank, it is possible for agriculture, inasmuch as its working capital yields a somewhat larger return than its fixed capital, to endure the burden of a higher rate of interest.

It is necessary, however, to take into consideration that, in the first place, especially in the matter of loans on agricultural mortgages, the security of personal property enters as an important factor. This is due to the fact

that the security which the agriculturist can offer to the lender is in great measure inseparable from his immovable property. The belongings of agricultural property are an essential part of its substance, which can absolutely not be detached, with respect to its value, from the land, and, indeed, the agriculturist is in many cases not in a position to offer any other security. That is the reason why in agriculture credit based on the security of immovable property, even, if from a strictly economic standpoint we may look upon it otherwise, has actually, largely as a matter of necessity, to take the place of credit based on the security of personal property.

I should also like to call your attention to the fact that the requirements of credit in the manufacturing industries are naturally much greater than in the case of agriculture, because the manufacturer, who turns over his capital three or four times in the course of a year, is to a much greater extent obliged to resort to credit than the agriculturist, who reaps only once in a year and turns over his capital much more slowly than the manufacturer. The agriculturist, indeed, who has once started out on the path of borrowing on his personal security, who, as we are accustomed to say, "forces" such credit, is, according to my notion and the experience I have had in my long life, entering upon a very perilous road, and I can not help recalling in this connection a dictum once uttered by a gentleman of my acquaintance, a person whom we in Bavaria esteemed highly, the founder of our Bavarian Fire Insurance Institution, Regierungsdirektor von Jodelbaum, a man remarkably well versed in economic matters: "Let

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us look around and see," said he, "what sort of success those agriculturists have had who have resorted largely to credit. Gentlemen, credit walks about in the company of disappointed hopes." This saying has stuck to my memory, and I believe it is the utterance of a man who knew agricultural conditions very thoroughly and who was able to judge of them.

In order to demonstrate what a poor showing the credit business of the Reichsbank makes in the domain of agriculture by the side of the operations of the agricultural loan associations, and especially of the Raiffeisen societies of the national union of the German agricultural associations, I have prepared a statistical table of the savings and loan funds belonging to the German national union for the year 1905.

Statistics of savings and loan funds for 1905.

Number of credit associations.....	10, 999
Members.....	959, 717
Assets at end of 1905.....marks..	1, 276, 980, 000
Liabilities at end of 1905.....do..	1, 270, 390, 000
Outstanding with members:	
Current account at end of 1905.....do..	304, 070, 000
Loans for specific time at end of 1905.....do..	715, 160, 000
Business deposits of members, current account.....do..	136, 160, 000
Savings in the associations.....do..	988, 350, 000
Paid to members:	
Current account.....do..	333, 590, 000
Loans for a specific time.....do..	215, 250, 000
Paid back by members:	
Current account.....do..	296, 810, 000
Loans running a specific time.....do..	134, 670, 000
Savings paid in.....do..	359, 400, 000

These figures, in my opinion, indicate clearly in what kind of organizations personal credit is at the present time centered in the case of the majority of agricultural concerns.

Having set forth this preamble, I should like to get to the main question, the question of the enlargement of the capital of the Reichsbank. I may say that I can give my assent almost unreservedly to the pregnant and clearly defined utterance of my esteemed countryman, Director Ströll. I am first of all of opinion that our credit is not judged abroad to any very great extent by the condition of the Reichsbank. It seems to me, as far as I can gather, that the credit of the Reichsbank is not questioned abroad and has never been questioned. But what has been questioned—and this transpires from the whole political discussion in the daily press—is the stability of our imperial finances, and I believe that the projected reform of our imperial finances will do much more toward improving the standing of Germany as a financial power than any reform of the Reichsbank [cries of “Quite true”], by which I do not by any means wish to say that I underestimate the importance of discussing certain reforms in the management of the Reichsbank, or that I am not aware that the dismal experiences of the past year ought to induce us to consider whether some means may not be found to diminish at least the gravity of such happenings.

In regard to the enlargement of the capital, there appears to be a great diversity of opinion, and I must confess that from the start a question has presented itself to me, one which thus far I seem unable to answer: If the enlargement of the capital is to do some good, on what scale is it to be made? We have heard some of the speakers declare that the capital ought to be doubled and others again that we can get along with an increase of 20,000,000, 30,000,000, or 50,000,000.

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That in time the capital of the Reichsbank is going to be increased as a result of its enlarged operations and that this will probably have to be done on a considerable scale, about this I have very little doubt. I can not for a moment imagine that the Reichsbank could get along with its present capital for another ten or twenty years. I believe, on the contrary, that it ought to keep on increasing its capital in proportion as its business expands, even if I agree with those gentlemen who have expressed the opinion that in the case of a bank of issue less depends upon the size of the capital than upon that of the circulation, or in other words that such a bank ought to work more with its bank notes than with its capital.

But just when the increase is to take place and on what scale, these are the questions, I must confess, that transcend not only my judgment, but that of others as well; and an authority on this subject, Professor Wagner, has only this morning expressed himself in an extremely guarded manner to the effect that he is favorably inclined toward the enlargement of the capital. He suggested, if I remember rightly, that it be left to the Bundesrat to determine when the increase of capital shall be made. With this reservation I am able to say that I am also in favor of an increase in the capital. But if the question is put in the form in which it is now submitted to us, that is to say, that the increase in the capital is to serve above all to strengthen the bank in such a way as to avert further catastrophes similar to those that we witnessed last year then I must say that I am absolutely convinced that in this respect the enlargement of the capital of the bank

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will be ineffective, inasmuch as the financial crisis was due altogether to other causes than an insufficiency of capital. I should like to call your attention to the fact that, according to the statistical information submitted to us, the very increase of capital that has taken place in the last few years has, to begin with, not even had the effect of preventing a rise in the rate of discount; secondly, that it has by no means prevented a considerable flow of gold from the bank; and finally, strange to say—and this is something, apparently, that no one dared to anticipate up to the last hour of our previous session—with the very same capital we have on the one hand a lower rate of discount [cries of “Quite right!”] and on the other hand an extraordinary increase in the stock of gold in the bank, so that in my opinion these very two facts should lead us to infer that there is no connection between the effect of the capital upon the rate of discount and its effect upon the accumulation of gold in the Reichsbank. [Cries of “Quite right!”]

Having declared that my attitude in this matter is not altogether one of opposition, although it is one of opposition with a certain reservation, I shall take the liberty of touching in a few words on the subject of the limit of the bank-note issue. In regard to this, I am also of opinion that we are perhaps expecting too much from the raising of the limit of circulation. The example of England has been pointed to as showing that it will be possible to do away entirely with the limitation of the bank-note issue. Attention has been called also to the revenue that has accrued to the Government from the taxation of excess circulation, and it has been asserted, with justice, that the

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imperial tax thus instituted is, to use a mild expression—I refrain from repeating the strong language that has been heard here—anything but fair. One of the members, I believe, has expressed himself in a still more emphatic manner. What I believe is that the critics of the tax on excess circulation can not altogether emancipate themselves from the train of thought which at the time of the enactment of the usury laws inspired the paragraphs relating to usury, the notion that if any one seeks to make capital out of the needs of his neighbor, he is guilty of a misdemeanor. Proceeding from this standpoint, I must say that I, to start with, can not indulge in any very great expectations in the matter of the raising of the limit of untaxed bank-note circulation, being of opinion that the present circulation limit, with the tax on excess, has by no means served to prevent the increase in the volume of bank notes. And as regards the importance of the circulation limit in the way of what has been called the danger signal, or storm signal, it has been repeatedly pointed out in the deliberations of the specialists that there is in reality no need of such a storm signal, there being various other indications that are just as much heeded as the diminution of the untaxed bank-note reserve.

These are the reflections, gentlemen, to which I have been led in this matter, and if I have perhaps not expressed myself as clearly as you might wish, you will have to account for it by the fact of my slender acquaintance with the affairs of the money market and of our banking system. I have thought, however, that in this brief

exposition of my views I have expressed the opinion of the majority of my fellow-agriculturists, and in particular of those of South Germany.

Doctor RIESSER. My attitude, gentlemen, with respect to the enlargement of the bank capital is also what I may term a strictly impartial one, indeed a thoroughly indifferent one. If by means of an increase in the capital I could secure a twenty-five years' extension of the bank charter, which I regard as extremely desirable, I should for this reason alone warmly advocate an increase. If, however, this is not to be attained—if the business before us is merely to consider in a sober fashion whether an increase in the capital is in itself desirable—then I must confess that the arguments in favor of an increase are, as far as I am concerned, not altogether convincing.

The increase has been urged especially on two grounds. In the first place, it is believed that a means will be found of strengthening the gold reserve of the bank and thus effectively staving off the disagreeable and long-continued enhancement of the rate of discount which we have recently witnessed, and secondly, it is believed that such an enlargement of the capital has been rendered necessary by the greatly enhanced demands upon the Reichsbank, which have followed in the train of the development of business.

As far as the gold reserve of the Reichsbank is concerned, there is no reason to believe that this can be permanently increased to any extent by the enlargement of the bank capital, because such a permanent increase—only a permanent increase can be considered here—as has fre-

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quently been pointed out, depends upon the way we are situated with respect to international balances, that is to say, whether we, in the last resort, have greater demands upon the outside world than the outside world has upon us or the reverse. But, leaving this matter aside, the Reichsbank had in 1906 gold bills of exchange and foreign gold credits to the average amount of 60,000,000 marks, and an average of 64,000,000 marks in 1907, as against 33,000,000 marks in 1899. According to the report of Herr Geheimrat von Lumm, which is extremely interesting in more than one respect, we had on May 7 of this year no less than 120,000,000 marks in gold bills of exchange and foreign gold credits, an amount to which I assume that accessions have been made in the meanwhile and which makes it possible for the Reichsbank to exert a powerful influence upon the international movement of gold and the rate of exchange by disposing of bills of exchange and thereby exercising pressure on the rate of exchange and in this way preventing the exportation of gold, which, in my opinion, it can do more readily than it could, by raising the rate of discount, counteract an excessive domestic demand for credit and promote the importation of gold from abroad. Purchases of gold by the Reichsbank have taken place on a very large scale even with the present capital, such purchases having amounted in the years 1876-1900 to no less than 2,629,000,000 marks—that is to say, nearly two and three-quarters billions—and the amount could undoubtedly have been greatly increased if the directors could have made up their minds not to stick at the price.

The increase of the stock of gold in the Reichsbank can not, therefore, be said to depend to any extent upon the

increase of the capital, and we have seen, indeed, that after the last increase of capital the stock of gold in the Reichsbank did not increase but actually decreased as compared with 1895.

So far, however, as the desire for an increase of capital is based on the argument that the demands on the Reichsbank have increased in consequence of the increase of business, it appears to me, first of all, that such reasoning is opposed to the assertion which we hear at the same time that the demands upon the Reichsbank in the way of credit have already been altogether too great, and that it is these very inordinate demands that are chiefly responsible for the increased interest on short loans, or, in other words, for the higher rate of discount. I believe that here, too, the truth lies somewhere between the two propositions. It can not be denied that the demands of manufacturing industry which, as has frequently been the case, has been reckoning on an indefinite duration of favorable conjunctures, and on this assumption has been increasing its investments or creating new ones, have become too great in the last years; and all the banks have now and then neglected, or rather were often not in a position, with their existing capabilities in relation to the needs of the industrial situation, to meet effectually such excessive demands on the part of manufacturing industry. The table which Freiherr Von Gamp has submitted to us to-day is at all events, for the reasons advanced by Geheimrat Wachler, not to be regarded as confirming the assertion that industry, as a whole, in recent years has rather been a creditor of the bank than its debtor. It is, on the contrary,

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inevitable, as Freiherr Von Gamp has already pointed out on another occasion, that our manufacturing industry, especially for the purposes of its export policy, which is bound to be, as we all know, for a long time, and certainly for the time being, our all-important concern, will be compelled to make great demands upon our banks. For this reason we ought not to consider the increasing claims of our manufacturing industry as a matter of regret with respect to our national welfare, even if under the stress of our rapidly increasing population and the consequent difficulty of securing work and food for our people, these claims have been increasing at a rather immoderate rate. It seems to me, however, that the present capital of the Reichsbank ought to suffice for the legitimate demands of manufacturing industry and commerce, and also for those of agriculture as far as the nature of agricultural operations admits of a resort to bank credit. Nor are we compelled to believe that for the purposes of discount or of loans on personal property an increase in the capital of a bank is necessary. In my opinion, however—in such matters it behooves us to speak with reserve and modesty—it is an error to assume that the Reichsbank ought to have more specific regard than heretofore for the three individual estates—trade, manufactures, and agriculture—and that it has hitherto favored the first two estates, and in particular the banks, in the case of the latter so far, indeed, as to have merited the appellation of the “bank of the banks.” I am convinced, on the contrary, that the Reichsbank has hitherto been what it should be in accordance with the legitimate wishes of Freiherr Von Wangen-

heim, "a central station serving the general industrial interests," and it is such in my judgment precisely when it is, not indeed exclusively, but nevertheless practically, the "bank of the banks," the center of the operations involved in the needs of all departments of the business world in the way of credit, as far as such needs can be met by banking agencies. In my opinion it is a downright elementary error to speak of a "preference of the banks" simply because at certain times it is the banks that have specially great demands to make on the Reichsbank, or bring bills there to be discounted in specially large volume; for the demands which the banks make in these cases, the bills which they present for discount, are in reality nothing else than bills and demands of manufactures, of trade, and, in smaller measure, to be sure, as I have already pointed out, of agriculture also. And indeed Freiherr Von Gamp has to-day at least indirectly acknowledged this expressly. For in opposing the restriction proposal of Herr Geheimrat Mueller, who desired that the Reichsbank be required to reduce its credits by 200,000,000 marks, he declared that this would not work, because then the industrial interests would have to apply to the banks, and these in turn would of necessity have recourse to the Reichsbank for support. This has repeatedly been the course of events in the past, and they will develop in the same way in the future. Of a preference granted to the banks as such—that is, a preference relating to the needs of the banks themselves—there can be no question in cases like these, for in such instances the relation of the banks to the Reichsbank is purely that of intermediaries, their function

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being merely that of gathering up the demands of business which converge upon them.

Nor can there be any question of essential injury to agriculture, for in consequence of the long duration of the process of agricultural production, agriculture is naturally dependent upon long-time credit. In view, however, of the obligation to cover its demand liabilities by corresponding assets, a bank of issue as a rule can not and ought not to grant this credit, either by discounting long-time bills or in any other similar form—not even, for instance, by discounting bills of which it is understood beforehand that when they fall due they will have to be renewed.

But it has been said that an increase of capital, even if it does not cause a permanent increase in the amount of gold—and indeed new shares are only to a very slight extent paid for in gold—and even if, as we all agree, it can have no permanent effect either in raising or in lowering the rate of bank discount, may nevertheless improve the condition of a bank. I think that such an assertion is at the same time correct and incorrect. Certain it is that when the payment is made in bank notes the note circulation of the Reichsbank is decidedly diminished; certain it is, too, that the obligations of the Reichsbank are diminished when the payments are made by entries upon bank accounts; and from this it follows no less certainly that an improvement in the condition of the Reichsbank will in fact take place, and also, I wish to add, an improvement in the ratio between the demand liabilities and the cash and bills with which to cover them. But it is in my

opinion likewise certain, or at least probable, that no lasting improvement in the condition of the Bank will be introduced thereby, because the money that is withdrawn from trade by payments is again required by trade, and the needs of trade must then be met by the Reichsbank through loans and discounts. The result is that a deterioration of the temporarily improved condition takes place—or at least may and probably will take place.

Finally, to judge from the experience of the Bank of France and the Bank of England, a large capital—and it is only in so far as they have large capital that the condition of these banks (quite different in other respects) bears on the subject—is not required as security capital. Even in bad times it is not required, because at such times it is employed with difficulty, or not at all fully, and therefore can not yield sufficient revenue. Nor is its use then quite safe, especially since the danger is not remote that at these times business of a doubtful character and unsuited to a bank of issue may be sought after and entered into.

But the working capital of a bank of issue is in the first instance and essentially its note capital.

Then, too, the ethical or psychological factor, which plays a decided part in the arguments of some advocates of the increase of capital, fails entirely, in my opinion, to alter the case. The claim is made that since the private banks have increased their capital the Reichsbank can not well do less, if only to maintain its standing. But the standing of the Reichsbank, which is very high, rests not upon its capital, but upon quite different grounds. This standing therefore may be—as it has hitherto justly been—

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very high, even with a smaller capital; and under less good management the standing might be lower than it is to-day, even if the capital were large.

At the same time even I must admit that no great harm can result from an increase of capital, and that therefore, if the Reichsbank itself should demand an increase, and should base its demand upon sound arguments (which I must say I can not at present conceive of), then it ought to be empowered to secure such an increase, with the consent of the Bundesrat.

But, gentlemen, if we really mean to give the Reichsbank a vote of confidence—for this is what it would amount to—then, I think, we must give it our confidence in full measure—we must intrust it with a *facultas alternativa*. We must trust it to be able to decide, according to circumstances, which is preferable—the plan of an increase of the capital or the plan, proposed by others as being more efficient and yet less dangerous, of a gradual increase of the surplus. Then the Reichsbank would have to be given the *facultas alternativa* to choose, subject to the approval of the Bundesrat, between an increase of the capital, of which the maximum would of course be fixed by law, and a gradual increase of the surplus, the general scheme of which would certainly also have to be marked out by law.

In proceeding to increase its capital, however, the Reichsbank would have to take into consideration the condition of the money market at the time of the increase, and this in reference not only to the extent of the increase, but also to the price or prices to be fixed for the issue, and to the times of payment. For my part, aside from the

proposal to place the decision in the hands of the Reichsbank itself, I should prefer a gradual increase of the surplus; and I should prefer this even if the shareholders were to suffer somewhat, because in this matter also we must act on the principle that the interests of the community must always be considered before the interests of individuals.

I shall say nothing of the idea of nationalization—an idea that ought, to my mind, to be resolutely resisted—because the discussions on this subject have purposely been eliminated from our deliberations and from the bearings of the experts, and because it would be impossible, within the limits of these discussions, to cover the question in any way except by mere indications. I am glad, however, to find that in this matter I am for once in complete agreement with Herr Geheimrat Wagner.

Finally, I should like to call attention to the fact that I certainly stand by every word that Herr von Wangenheim has quoted from my book, "The History of the Development of the Great German Banks;" only, on the one hand, a quotation must not be taken entirely apart from the context, and, on the other hand, nothing must be added to the original. But this is what has happened in the case of the quotation, "The outpost engagements of politics are fought by the banks on financial ground." The addition "by the banks" is not to be found at all in my text. The following is the statement on pages 129-130 of the second edition of my book, "On the History of the Development of the Great German Banks" [*Zur Entwicklungsgeschichte der Deutschen Grossbanken* (1906)]:

"Finally, it must not be forgotten what notable political successes have been won by means of the granting or the

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refusal of loans to foreign states, and to what an extent home policy can utilize for political purposes the prohibition of the placing, the listing, or the employment as collateral security of foreign papers. The outpost engagements of politics are fought on financial ground."

The moment, the direction, and the adversaries, however, in these outpost engagements that are to be fought on financial ground are determined, of course, exclusively by the department of state that is responsible for foreign politics, and not by the banking world.

Finally, I shall permit myself to make some reply to the observations that President Heiligenstadt has made to-day. The statement made by Count Kanitz that these considerations are new is not quite correct; indeed, they are covered in all essential points by the address on "Questions of the money market," which President Heiligenstadt delivered as early as 1906 before the *Königliche Landesökonomiekollegium*. I have read this address with great interest, and I may say that I heartily agree with almost all the essential principles therein laid down, though, to be sure, I do not subscribe to the inferences which President Heiligenstadt has drawn from these principles—both to-day and also in his earlier well-known essay in Schmoller's *Jahrbuch* (vol. 31, part 4, under the title "Der Deutsche Geldmarkt").

Even though it be true that in general—what, according to my conviction, will be possible only to a very small extent—we should aim at an increase of the working capital as distinguished from the investment capital, yet I hold it to be an error to assume that by this consideration a demand for the increase of the capital stock of

the Reichsbank can be justified, for I consider erroneous the view expressed to-day by President Heiligenstadt that only the capital which is kept in the Reichsbank permanently remains as working capital, and is therefore prevented from becoming investment capital. It remains as working capital neither if the capital stock is increased, nor if, as was at a former time proposed by President Heiligenstadt in Schmoller's *Jahrbuch*, the banks should be required to deposit about 2 per cent of their entire obligations in the Reichsbank. For in the former case the increased capital will be treated in exactly the same way as the original capital, whether it be invested by the Reichsbank or used or misused as before by a third party, and thus used also for other purposes, since these other purposes can not by any means always be recognized as such. And in the case of the 2 per cent deposit these reasons are supplemented by the consideration that no change in the present disadvantageous relation between working capital and investment capital can possibly be seriously expected to result from the deposit of so inconsiderable a sum as 2 per cent of the obligations of the banks

As for the fixing of a bank-note contingent, I wish to say at once that I am an advocate of it, and under no circumstances, therefore, could I recommend the complete removal of the tax obligation and the tax limit. I would, on the other hand, approve of a certain raising of the tax-free note limit, which certainly has no connection, either in theory or in the practice of the Reichsbank, with the bank's discount rate. And I would approve of it for

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these reasons: That the continual passing of the tax-free note limit must gradually weaken the feeling of such a step being a danger signal, and that this constant passing of the limit would, for the reasons mentioned by several gentlemen, decidedly weaken our position in the eyes of other nations.

Doctor SCHMIDT. Gentlemen, in the hearings of the experts a great majority of the men were opposed to an increase in the capital of the Reichsbank, and that principally for two reasons. The first reason is that a bank of issue really does not need a capital of its own. The example of the Bank of England was particularly referred to. The second reason was that an increase of the capital would have no effect upon the condition of the Reichsbank. The very weighty expressions of opinion against an increase of the capital of the Reichsbank were given additional support by the well-known article of His Excellency President Doctor Koch, who has served the Reichsbank so well. The opposition to-day on these points has been considerably weaker than that of the experts; the two principal reasons brought forward against the increase are in my opinion not valid. If it be asserted that a bank of issue does not need a capital of its own, the truth of this statement is not to be denied. But the question asked on the list is not whether an increase of the capital stock is necessary but whether it is to be recommended, whether it is desirable. If we bring in for comparison the Bank of England, which, in virtue of being the most important bank, controls the gold reservoir of the whole world without available cap-

ital of its own—and it can do this because its strength is completely assured by government advances and consols—we must not regard the situation of the Bank of England as on the same footing with that of the German Reichsbank; they are radically different. The Bank of England has altogether only seven branch offices; the German Reichsbank has 500. The extent and the kind of business transacted therefore by the German Reichsbank is also quite essentially different from that of the Bank of England. These 500 bank offices and bank branch offices give the German Reichsbank in a certain respect the character of a credit bank. Heartily as I agree with Herr Stadtrat Kaempf and Herr Fischel that this would not, in principle, be desirable, and that in principle, theoretically, the right thing would be for the Reichsbank to refuse to discount bills upon the payment of which at maturity it can not absolutely depend, nevertheless we must not forget that the Reichsbank, too, has a tradition of its own. It has taken over the Prussian State Bank, and in many provinces the offices of the Reichsbank are often the legitimate and almost the only givers of credit for very important spheres of our economic life—retail trade and agriculture. A great deal has been said here about the 200 millions of bills which Herr Geheimrat Mueller would like to see vanish out of the portfolio of the Reichsbank. The president of the Reichsbank, Herr Havenstein, was so very kind as to notify us of his last instructions to the bank offices on this subject; and these instructions have, as I know, met with universal approval. In these instructions, however, it was stated

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that renewal of bills may be granted only once at most. Here again, therefore, the tradition has been maintained that in the case of certain agricultural pursuits, which have a more than three months' turnover of their working capital, the Reichsbank offices should be permitted to grant a renewal even at the time of discounting the bill. Gentlemen, such bills, such credits, which, while they ought not to be extended further than they now are, and than by traditional development they have been, but which should not, in the interests of our common economic life, be completely abolished—such bills and credits do not form a proper note cover, and should not, therefore, be discounted out of the supply of deposits and notes, but out of the bank's own capital. Besides, the bank, as has often been remarked, has a rather considerable landed property—about 55,000,000 or 60,000,000 marks. To be sure, one may build, even with notes; but one can not redeem these notes with houses. The cost of these holdings, too, then, must unquestionably come out of the capital of the bank itself. Loans on collateral are also not suitable for covering notes; and for this reason, if for no other, the bank will do well to supply these loans principally out of its own resources. Loans on collateral are, moreover, a branch of business which is of quite essential importance to the middle classes and to the classes that are not habitually dependent upon the banks. I can easily see how a landowner who provides for his occasional need of credit by putting a mortgage on such of his property as is free from debt may lock up the deed of mortgage in his strong-box and, when he needs money,

may carry it to the Reichsbank in order to take out a loan on its security.

These are altogether legitimate, sound demands of credit, which the Reichsbank must be in a position to satisfy. It will do well, however, not to regard the meeting of these obligations by its debtors as security for its notes.

A fourth instance in which the Reichsbank does well to rely rather upon its own capital than upon its privilege of note issue, or its deposits, is that of treasury bills, which recur so often and come in in such large quantities. The Bank of England has placed its whole fortune in such State securities. In the Reichsbank these investments have amounted to 180,000,000 and perhaps more. They have, therefore, attained quite extraordinary dimensions. These investments really ought not to be made out of notes and deposits, but ought also to be taken over only within the limits of the Reichsbank's own capital; for otherwise the operation would really be just about the same thing as if the State should decide to print notes directly instead of printing treasury bills. For it comes to exactly the same thing in the end if the State prints treasury bills, takes them to the Reichsbank, and receives bank notes in exchange. Therefore, I think that for this sort of transaction too—the taking up of treasury bills—the Reichsbank must have its own capital on hand, in order that the position of the Reichsbank be unassailable.

Also, as to advances on gold importations, as to other assets, and as to the purchase of bills of exchange, it would be advisable for the Reichsbank to carry on these

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operations—which the Bank of England does not undertake—as far as possible out of its own capital.

I think, then, that these six branches of business, the practice of which distinguishes the Reichsbank from the other great national bank to be compared with it (the Bank of England)—I think that these make it urgently desirable that the capital of the Reichsbank correspond in a certain measure to the extent of these transactions; and since our whole economic life is in process of constant development, and since the amount of the Reichsbank's business has doubled itself within ten years—for these reasons I consider an increase of the capital desirable.

Now, it has been asserted, and to-day even by such experienced men as Herr Fischel and Geheimrat Riesser, that an increase of the capital of the Reichsbank would have no effect whatever on the condition of the bank. It was asserted by the experts that the result would be simply a transference from the deposit accounts to the investment capital. Gentlemen, I have really taken much pains to work myself over to this idea, but it was impossible for me to do so. I can see absolutely no reason why the subscriptions for Reichsbank shares should have any different effect upon the condition of the bank than subscriptions for gold shares, for State loans, for Prussian consols, or for anything else of the kind. For how do these investments come about? A capitalist, with the good interest rates that he gets from his bank, has since October gathered in his coupons and dividends, and now has at his disposal a balance of 300,000 marks at his bank, and considers the moment to have arrived for looking up a

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safe investment for this money. He has long wished to build a house, so he decides to lay out 100,000 marks for the building of a house; with 100,000 marks he will buy English consols; with another 100,000 marks, bank shares which are just about to be issued. He therefore instructs his banker to pay 100,000 marks to the architect; to pay 100,000 marks to the Reichsbank for Reichsbank shares; and with 100,000 marks to buy consols or gold shares in London. All these 300,000 marks go, of course, in different directions; the bank withdraws it perhaps from the deposit account, but the effect upon the deposit balances at the Reichsbank is still necessarily the same for all three operations. During the movement, the operation will make itself felt in some way or other by the Reichsbank. Either 300,000 marks will be taken, or half of that, or a third; but in any case it makes no difference whether the capitalist has decided to use it for building his house, for buying English consols, or for buying bank shares. The difference comes in only afterwards. The money that I set aside for building the house becomes fixed and immovable as real estate; the money that I lay out for buying English consols goes outside the country (and this is, according to Herr Fischel, in some measure desirable); the money for Reichsbank shares is kept at home in the Reichsbank. While the two sums of 100,000 marks each that go to the house and to the purchase of English consols are immobilized or sent outside the country, the 100,000 marks that go into the Reichsbank in the form of Reichsbank shares remain as circulating capital, or, as President Heiligenstadt says, working capital, and thus

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movable capital, as distinguished from the other 200,000 marks, which become investment capital. That money which the capitalist devotes, not to Prussian consols, which are used for the construction of railroads or canals, but to industrial securities, which are used for the opening of mines and other such purposes—this money becomes immobile; it is separated from the circulating capital and turned into fixed capital. On the other hand, the money with which he buys bank shares remains as circulating capital by being still kept in the Reichsbank, and in this way it mitigates the great mistake of which President Heiligenstadt also spoke, namely, that in general in recent years in Germany circulating capital has been too extensively drawn upon for the investment capital. In any case, that is one of the principal causes that have given rise to the high rate of bank discount—that is, to the high rate of interest on short-time loans; and an increase of the share capital of the bank would undoubtedly have the effect that, at least to a slight extent, the increase of circulating capital would be promoted as against that of fixed investment capital. This is, in my opinion, a factor that points plainly in favor of increasing the capital of the bank.

It has been roundly denied that an increase of the capital has any effect at all upon the bank's supply of gold, or upon the bank's rate of discount. Gentlemen, I would not deny this influence in such absolute terms. To be sure, it is not easy to prove it by actual figures, but undoubtedly an increase in the capital of the Reichsbank has a tendency to increase the supply of gold as well as to lower the rate of discount. The 100,000 or 100,000,000

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marks by which the capital of the Reichsbank is increased place the Reichsbank in a position to buy for that sum bills of exchange with which to advance money for shipments of gold. The moment must of course be opportune; at such a time the 100,000,000, or 70,000,000, or 60,000,000 by which the capital of the bank has been increased can easily be changed into gold, and can be brought in the shape of gold into the vaults of the bank—and this not through bank shares having been subscribed for abroad (a thing to be avoided), but because the bank has been put into a position to make advances on gold and thereby to increase its supply of gold. It is also tenable that an increase of its own capital has at least a tendency to cause the rate of discount of the Reichsbank to become lower. Let us suppose that there are many claims made upon the bank's resources; for discounting, for making loans on bills and on collateral it has at its disposal in the form of money its capital, its deposits, and the tax-free note contingent—the bank needs altogether, let us say, 1,200,000,000 marks. Now, if the note contingent does not hold out, and the bank issues taxed notes to the extent of 400,000,000, then it will fix the rate of discount at perhaps 6 per cent. If, as in the instance that Herr Fischel brought forward, the bank has 200,000,000 marks added to its capital, then the exceeding of the tax limit amounts to only 200,000,000. It would therefore have at its disposal 1,400,000,000 instead of 1,200,000,000, and would need two-twelfths, or one-sixth, less discount—that is, 5 per cent instead of 6 per cent. Of course, this can not be accurately proved, but it is easy to see how a tendency toward lowering the rate of discount would arise.

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One element of the case, referred to by Herr Fischel this morning, has, I admit, raised some doubts in my mind. I mean the danger that if money is cheapened and if we should come again after a few years upon a plethora of money the bank might conceivably find no way of employing its investment capital, its deposits, and its supply of bank notes; that the receipts of the Reichsbank from discounts and interest on loans and from other sources might not suffice—after deducting the expenditures, which are considerable—to pay a satisfactory dividend, and that this might cause a sudden fall in the price of the bank shares, which would look very bad abroad. This possibility, however, is still a very remote one. But I would readily agree that the question of when the new shares should be delivered remain in the hands of the Bundesrat, on the motion of the Reichsbank directors. Otherwise I approve the proposal of Freiherr von Gamp, with which Herr Kaempf approximately agrees—namely, that the capital of the Reichsbank be increased from 180,000,000 by about 70,000,000 to about 250,000,000. I should suggest that share certificates be issued somewhat in this manner: That they be offered at a premium of 30 per cent or of some other named per cent, and that this premium go into the surplus. But I would urgently recommend that the speculative element, the element of uncertainty, be removed from the dividends of the Reichsbank. The Reichsbank shares must have the character of sound state securities [very true!] and ought not to have in any way a speculative element of uncertainty, such as now exists in them. The guaranteed interest or preferred interest of

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$3\frac{1}{2}$ per cent at an issue price of 130 is only about $2\frac{1}{2}$ per cent, while state securities yield 4 per cent. Furthermore, an enormous element of uncertainty arises from the fact that bank shares bought at 144 may be repurchased at 115, so that the owners of bank shares who eight or nine years ago acquired the shares at 144 now receive for them 115—that is, they suffer a loss of 29 per cent. A paper that carries with it this speculative element of uncertainty is naturally not at all adapted to making its way into wider fields—an end which has been declared by several here to be desirable, and which, indeed, is very urgently to be wished. I should therefore be of the opinion that a rate of interest should be established for the Reichsbank shares, a preference rate not of $3\frac{1}{2}$ per cent, but of $4\frac{1}{2}$ per cent, with an issue price of about 130, so that they might be assured of a revenue of about $3\frac{1}{2}$ per cent, as compared with 4 per cent on government loans [quite right!]; further, that the buying-in price upon the taking over of the Reichsbank by the Government shall not be less than the purchase price—let us say 130. Now, in order to give to the Government a share in the surplus also, and in order to increase the capital even further through an increase of the surplus, I would urgently advise that additions to the surplus be again introduced. After paying an interest of $4\frac{1}{2}$ per cent on Reichsbank shares, the Government, in order not to suffer any loss, would have first to receive 1 per cent—the difference between the $4\frac{1}{2}$ per cent preferred dividends granted to the shareholders and the present $3\frac{1}{2}$ per cent. Out of the remaining proceeds 5 or 10 per cent could go into the

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surplus, the upper limit of which should be fixed—if fixed at all—at 60 per cent. The proceeds still left over would be divided, in the same proportion as has hitherto been maintained, between the Government and the shareholders. In case of the taking over of the Reichsbank by the Government the shareholders would in no instance receive a smaller sum than that paid by them when the shares were issued.

I believe that if we make these requisite provisions for the shares the general run of the people will find them more accessible and will take them up more readily. Whether it is advisable to issue shares of so low a denomination as 200 marks is an open question; I should not recommend it. I think that 1,000 marks is sufficiently small to make it possible now for even the middle classes to acquire these shares.

As for the question of a tax-free contingent, I am not in favor of a contingent having the arithmetical rigidity of a fixed number, as is now the case. Business has developed to an enormous extent; in the matter of railroad receipts there is a notable contrast between the present time and ten years ago. The transactions of the Reichsbank, the receipts of the Prussian state railroads, the amount of coal consumed, of iron ore produced, and of wages paid—the trade associations give official material on the subject—all these figures will prove to have been doubled at almost every point within the last ten years, simultaneously with an accelerated increase of population. Meanwhile the means of carrying on business in these economic activities remain simply the same as

before, the contingent of 470,000,000 marks. But surely this is unnatural. If our railroads were likewise to fix a contingent for their working equipment and to say so and so many cars and locomotives may be used, and no more; if more are used than this contingent, there will be a charge of 5 per cent extra on freight, I should say—but that is incredible. And the situation here is similar, if the note contingent is held to so strictly. This much at least is true (and on this point the gentlemen of the commission, as well as the majority of the experts, are apparently agreed): There is need of an increase which shall correspond in a certain measure with the increase in economic intensity—an increase to about 600,000,000 marks.

But even this rigid fixing of a limit ought, in my opinion, to be subject to correction, in order that it may have that necessary elasticity which is demanded by our economic life, and this correction might be brought about by making the tax obligation come into play only when the cash cover, or perhaps the gold cover, has fallen below a certain high ratio—let us say two-thirds; the Bank is permitted to issue notes up to a point at which the cover is only one-third. Now, then, my proposition is this: If the notes in circulation are covered by two-thirds—if, I may as well say, they have a two-thirds gold covering—then the tax obligation is not to apply even if the fixed contingent is passed, so that the contingent will be of twofold character—an absolute contingent of 550,000,000 or 600,000,000, or half of the cash holdings or of the stock of gold. This would also have the great

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advantage that the Reichsbank could endeavor, as indeed it now might, to increase materially its supply of cash. If we have 2,000,000,000 marks of gold in the vaults and a note circulation of 3,000,000,000—if, therefore, we have 1,000,000,000 of uncovered notes—then the condition of the Reichsbank is decidedly better than it is with an uncovered note circulation of only 600,000,000 and cash holdings of 800,000,000 in gold.

Therefore, I wish urgently to recommend that in considering the fixing of the contingent you take account also of the question of note covering, considering, perhaps, the suggestion that the tax obligation on overstepping the contingent be applied only after the cash covering of the notes falls below two-thirds, or $66\frac{2}{3}$ per cent.

Mr. PETER. Permit me, gentlemen, before I begin to answer the questions proposed, to return to the opinions expressed by Director Schinkel this morning in regard to the discounting of short-time bills by the Reichsbank.

I am in complete agreement with these expressions of opinion. Gentlemen, every banking institution—not only the great banks, but also such smaller institutions as have a good financial basis—seeks to discount at the Reichsbank short-time bills only, and to avoid the submission of long-time paper. For long-time paper it is the private market that sets the standard; people wish to discount these bills at the private rate of discount.

I am really very sorry that there is a requirement in the Reichsbank law according to which the Reichsbank is forbidden to discount at the private rate of interest when the Reichsbank rate amounts to 4 per cent or more.

Many classes would be displeased if the Reichsbank were to put difficulties in the way of the discounting of short-time bills, which are naturally presented chiefly at the quarterly periods.

I come now to the answers to the questions proposed.

I reply: Since the bank's capital comes under our consideration only as a guaranty fund for the obligations of the bank, especially for redeeming its notes, and since it has not the character of working capital—for this, as we have heard repeatedly to-day, is constituted by the circulating notes—I consider that an increase of the capital is not necessary. In my opinion, and also in that of the classes of people that I have questioned, the capital the Reichsbank has had hitherto, including the surplus, is fully sufficient. I admit, however, that an increase would necessarily have a favorable effect on the condition of the bank through strengthening its own resources and through creating a better relation toward foreign money.

I find that in this matter I am in agreement with the opinions expressed to-day by Geheimrat Wagner and with those expressed last month by the expert, Herr Heyman. On the other hand, I can not see that an increase of the capital would have any effect in improving the money market, and in particular the stock of gold of the Reichsbank. A strengthening of the power of the Reichsbank to make loans on collateral I consider unnecessary at normal times, since I agree with Doctor Ströll that in case of war special measures would still have to be adopted with regard to this matter. I am of the opinion that the ordinary need can be satisfactorily met.

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I can not forego the opportunity to express the wish of a considerable number of people that the Reichsbank be empowered again, as it was formerly, to allow the introduction of a preferential rate of interest for loans made on the security of German state papers.

An argument against the increase of the capital is, to my mind, to be found in the loan requirements of the states and of the cities, which must still be satisfied in very large measure in the near future. Furthermore, I look forward to an economizing of the circulating medium which will gradually come about through the extension of the use of checks and drafts, and in consequence of this a lessening, little by little, of the demands made upon the Reichsbank. For this reason also, I consider that an increase in the capital is not necessary.

On the other hand, I am obliged to assent to the considerations brought forward by Stadtrat Kaempf to this extent—namely, I consider that they can be upheld as arguments for the increase of the capital, and that they are worthy of discussion.

Gentlemen, I may sum up my position thus: I do not consider that an increase in the capital of the Reichsbank is necessary; but I do think it can be carried through if it is pronounced desirable by the Reichsbank administration, which is, in my opinion, the first judge to be taken into account and the most competent critic of the question.

As for an increase of the surplus I should welcome it, provided it were introduced through an increase in the capital. An increase in the surplus without increase of

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the capital I should discountenance for this reason—that both the interests of the shareholders (through a cutting down of their dividends) and the interests of the Government would be thereby infringed upon.

As to the last question—that of the tax-free note contingent—I am of the opinion that it should not be abolished. The character of a danger signal has been rightly attributed to it; and rightly, too, was it pointed out that a danger signal loses its meaning if it is too often sounded. In the past year we have constantly heard the sound of this danger signal, and on this account a raising of the note contingent might well be recommended. Gentlemen, though I do not think that the increase of the note contingent is necessary for the Reichsbank and for the great banks, still I do believe that it would be good for large economic classes, provided we continue to have the danger signal. Even if I do not think that the course of the rate of discount can be materially affected by the raising of the tax limit, nevertheless, in my opinion, an increase would be useful to the Reichsbank in so far as it obtained thereby greater freedom of motion. My opinion is that the increase of the note contingent to 600,000,000 marks would prove to be an advantageous measure.

Mr. GONTARD. Gentlemen, I am quite aware that in your circle of parliamentarians, bank experts, jurists, and scholars I occupy an uncommonly difficult position. But when I received the summons to attend the bank inquiry I wrote that I was really in that sense no expert; that I could only answer certain special questions which are concerned with industry. Now, if I am to do justice to my

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task, I must emphasize the fact that I do not regard myself as a representative of a class, as has happened in the case of other men, but that I conceive my present task in just about the same spirit as I conceive my office as member of the board of trade. I have to examine the arguments that are set before me, and I have to decide, to the best of my knowledge and my conscience, whether these arguments that are set before me are valid or not. I have examined the material very thoroughly; the material that reaches one from all sides is, to be sure, so comprehensive that it is impossible for one to examine it from every point of view. Besides, it is extremely difficult to distinguish the important from the unimportant considerations.

Now, coming to the various questions, I wish to express in the name of the commission, in so far as this has not already been done by others, the heartiest thanks to the gentleman who sent us the little manual. I believe that we shall be carrying out the intention of our chairman if we keep our attention closely and particularly on this manual. I shall not go further at present into the separate reasons given, for I could not explain the argument to you further than as it is printed here before you, or as others could do much better than I.

If at this point it be said that business operations have so greatly increased that they call for an increase of the capital, I disagree. The operations of business do, to be sure, call for an increase in the circulating medium, but they do not call for an increase in the capital. Gentlemen, the contention that the land owned by the Reichsbank has

risen in value, that more pieces of land have been bought, that in general more real estate has been acquired—this contention is plausible enough. But the increase of capital called for by this is but slight. In general, the so-called capital of the Reichsbank is, to my mind, itself only a guaranty fund; the real capital consists in the bank notes. If we are told that other countries have a smaller capital in their banks, while they have before them the same problem as that of the Reichsbank, then in this we have an argument for the belief that we need not increase our capital. It sounds plausible to say that Germany occupies a central position, and must therefore be particularly careful in this direction. But if anything were to be done with that object the capital would have to be very greatly increased—and no one has this in mind. The foreign-exchange policy is not, in my opinion, dependent upon the capital. As far as the question of loans on collateral comes in, it is not necessary to increase the capital; and in this connection I, too, wish to express my agreement with the view that too much business in this line is not good for the Reichsbank, because it might easily call forth too much giving of credit.

That the bank deposits would be withdrawn in case of war seems to me probable. This would, indeed, decidedly point toward the advisability of an increase of the capital. Nevertheless, I am not of the opinion that when new money is locked up in the Reichsbank for capital this is merely taking the money out of one pocket in order to put it into the other.

Reference has been made to former instances in which an increase of the capital has been effected; that, too, would

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be another argument against the increase of the capital, for these increases were of no use. But the counter objection could then again be made that the increase was not large enough. I am quite decidedly of the opinion that gold will not be retained if it comes into the Reichsbank by way of an increase of capital. Only an unessential influence upon the condition of the Reichsbank will be exercised by an increase of the capital; an influence upon the rate of discount will perhaps be felt for a time, but not permanently. In view of all this, I wish to say that an increase of the capital seems to me not absolutely necessary.

I may now take up the question of appearances. It is not, to my mind, necessary that the Reichsbank should unquestionably stand at the very head of the German banks in point of capital. How high, for example, shall it be placed? The Deutsche Bank has now 200,000,000 marks. Suppose it increases its capital in the next few years by so and so much; then the Reichsbank is once more not at the head. To sum it all up, then, in view of all that I have said, I arrive at the conclusion that an increase of the capital is not absolutely required.

Nevertheless, I have such extremely great confidence in our Reichsbank administration that if it should express the wish that the capital should for any reason be increased, I should not for a moment hesitate to declare my approval of a small increase.

As to the question of the note contingent, I wish to admit at once that the amount of the contingent is in every case quite arbitrarily fixed. In this case the greater

amount of business does certainly call for an increase of the contingent.

Concerning the question of the so-called danger signal, I am certainly not of the same opinion as most of the gentlemen who have spoken to-day. We must make a distinction according as it is big business men or little business men that we are thinking of. The big business men ought certainly to be able to perceive simply from the condition of the Bank what the situation is, while the small business men—those, for example, who have, like myself, about 1,000 or 1,500 customers—are so placed that most of them do not in any case know what the tax is. If, then, after the abolition of the contingent, the people were told, “If there were now, as there used to be, a danger signal, the situation would be precarious,” that would come to the same thing as if they were told by the banker, as they are now, that the Reichsbank has passed the tax-free limit.

As for the impression that would be made upon foreign countries by the removal of the tax, I wish to say that we ought not to pay too much heed to foreign countries. A graded tax seems to me too complicated; nor do I think that it would be of any value unless it rose very rapidly. Moreover, if we now consider the question of whether the note contingent shall be entirely removed or greatly raised, I am on the whole in favor of its being greatly raised, although I consider the present moment really not very well suited for such a measure, inasmuch as it would be better to wait and see how far the efforts to bring gold into the Reichsbank will bear upon this

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point. In any case an increase is arbitrary, and we live in an age in which everything is settled according to population—the circulation of silver and so forth. Could we not take the population as a basis in this matter, too, and say, instead of the 473,000,000 marks that we now have, we will take ten times the number of inhabitants of the German Empire as the note contingent?

Mr. MÜLLER (Fulda). Gentlemen, I consider that an increase of the capital of the Reichsbank is not necessary—is not even advisable if the question is put in the latter form. In my reasons for this opinion I am in exact accord with what Doctor Ströll has said here this morning. I think I need not repeat these arguments; they would take up too much time.

I should, however, like to contradict very emphatically the statement that the capital of the Reichsbank stands in any relation whatsoever to the rate of discount.

If now the question is put, whether the surplus should be increased, I would favor an increase up to 50 per cent of the paid-up capital, for a great part of the surplus is now sunk in the bank building.

As for the question of the note contingent, I should be in favor of a raising of the note contingent; I consider it to be indifferent whether the sum be fixed at 550,000,000 or at 600,000,000. I should like to say in this connection, however, that the note tax has nevertheless not been superfluous as a danger signal, that it has had a good effect in recent years, and that we are already getting the benefit of this good effect. For we may well say that the condition of the bank and the state of credit have materially

improved since the discount screw has been firmly turned. [Quite right!]

Indeed I consider the long-continued high rate of discount in the last year and up to the spring of this year—I consider this a measure for the restoration of sound conditions, for without it the economic situation might perhaps have become still worse. The excessive speculation, “the overtrading,” as Professor Lotz said, would have extended much further and would have had still worse consequences if the curative measures on the part of the Reichsbank had not been adopted.

Now, if at this point it be brought forward by Doctor Schmidt that we shall have to increase the capital of the Reichsbank in order that it may always be able to take from the Government 200,000,000 of treasury bills, or to hold this amount at all times, I should look upon that as an utterly perverse measure. On the contrary, under no circumstances would I lend a hand to further increase the Reichsbank’s capital in order that the floating debts of the Government may be multiplied ad infinitum. It is precisely the system of floating debts, as it has been hitherto, that I regard as a dangerous, mistaken system; and I should be only too glad if a speedy and thorough financial reform should put an end to this floating debt system. Least of all would I approve of a permanent increase of the Reichsbank’s capital, which would promote still further this floating debt system. If we once have a sound government finance, if we also clear a way for the cooperative trade associations by providing credit facilities, then the Imperial Treasury, and through it the

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Reichsbank also, will be disburdened of about 200,000,000 or 250,000,000. The former situation will be restored, when the Imperial Treasury as a rule really had money. Now it is always the debtor of the Reichsbank. Whenever any need arises in the treasury a demand is simply made upon the Reichsbank, and the money taken out of it without regard to the circumstances. This situation should not be allowed to continue. The Reichsbank would even now be on a better financial footing if these floating debts and the loan arrangements of the cooperative trade associations were got rid of. Therefore I think that one should not, in order to obtain a temporary result, adopt measures which will afterwards have a lasting effect, such as those which Director Schmidt proposed.

This is in brief my view. I do not care to go more closely into the reasons for the particular points, for this has already been done in such great detail by Doctor Ströll, Geheimrat Riesser, Herr Mommsen, and others who are of the same mind, that I really think it would be a waste of time to revert to the matter again in any more thorough way.

Doctor WEBER. Gentlemen, the reasons that have been submitted to-day in favor of the increase of the capital have succeeded as little in convincing me as they have in convincing Geheimrat Riesser.

I, too, would confine myself to a few words, were it not that I wish to take up a few points that were touched upon in to-day's debate. This morning my right-hand neighbor, Oberbergrat Doctor Wachler, said that foreign countries had cast a doubt upon the credit of the

Reichsbank; Herr von Cetto has already said that he has heard nothing of this, that he has read nothing to this effect in the foreign press. But I should like to point out to the gentlemen who favor the nationalization of the Reichsbank that foreigners would perhaps have had cause to doubt the credit of the Reichsbank if it were a pure state bank; and the only reason that can weigh with me to make me plead for an increase of the Reichsbank's capital is that an increase of the capital would further postpone the nationalization of the Reichsbank, or would even perhaps make it forever impossible.

It has been further alleged as an argument for the increase of the capital that thereby the revenues of the shareholders could be watered, and Herr Kommerzienrat Fischer has, I believe, referred to the fact that he would really be somewhat ashamed to receive 9 per cent or 10 per cent on the shares. I should like to call Herr Fischer's attention to the fact that in itself the average share of the shareholder for all the thirty-two years of the Reichsbank's existence will very probably not have been above 6.5 per cent. If it is borne in mind that the price of shares is far above par (about 150 per cent), it appears that the interest stands not at $6\frac{1}{2}$ but $4\frac{1}{2}$, or at most 5 per cent. That is a rate of interest which, taken into connection with the fluctuations of the market and the risks involved, should be regarded as not too high.

Moreover, I, too, consider that an increase of the capital will exercise no influence in any direction upon the condition of the Reichsbank. But I should like to call Doctor Schmidt's attention to the fact that the increase of the

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capital has as little connection with the tax-free note contingent as it has with the condition of the bank. For the note contingent is reckoned with reference to the cash holdings; the capital does not enter into the question of the fixing of the tax limit. Therefore an increase of the capital would bring about no change in this respect.

As for the surplus, Geheimrat Wagner explained this morning that it might have three functions—the function of guaranty, the function of equalizing the profits, and the function of increasing the working capital; and he thought that the surplus might also serve to equalize the fluctuating dividends. The use of the regular surplus for the purpose of equalizing the dividends is in itself prohibited to the joint-stock banks according to our law. In the Reichsbank, too, it should not be permitted except for the exceptions provided for in the banking law. A separate dividend surplus would, therefore, have to be created. Whether that can be done by the Reichsbank seems to me doubtful. The proposal to issue the new shares in sums of 200 marks, nominal value, seems to me dangerous. We have laid down in our law concerning shares the principle that, for well-weighed economic reasons, shares may not be issued in denominations of less than 1,000 marks. And I should like to point out, with reference to the statements of Herr Raab, that the middle class as such has perhaps no need at all to hand over its capital for the purpose of acquiring such shares. If the middle-class people wish to have safe investments at good interest they get the same revenue now from state loans, without exposing themselves to the price fluctuations of a share of stock.

The second question, as to increasing the tax-free note contingent, includes the subsidiary question:

“May it be assumed (and, if so, for what reasons) that an increase of the tax-free note contingent has an influence upon the determination of the rate of discount?”

So far as I have heard, no reference has as yet been made to this matter by the gentlemen who have spoken before me. I am of the opinion that the tax-free note contingent has no influence upon the rate of discount. The experience of past years establishes beyond a doubt the fact that neither the former nor the present president of the Reichsbank has permitted himself, or will permit himself, to be guided, in fixing the rate of discount, by the consideration whether the highest limit of the note contingent is passed or not; and I think that, conversely, if the rate of discount should be higher than the tax to be paid upon overstepping the note contingent, this would have no influence upon the further development of the rate of discount. It is well known that other causes operate upon the height of the rate of discount.

An increase of the tax-free note contingent, while a limitation of this character is retained, I consider to be on the whole well timed, since we know that in recent years the overpassing of the limit has been so frequent that it seems necessary finally to introduce a systematic arrangement that answers more effectively the purpose of this tax limit. I think it would be a good plan to have the note contingent fixed at perhaps 600,000,000, a sum, moreover, with which no fault could be found on the score of looks, as is the case with the present 473,000,000.

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Mr. ROLAND-LÜCKE. I take it that an extension of the Reichsbank grant will not be allowed to go beyond ten years, and therefore I shall express my view of the matter with reference to this time limit.

I consider that an increase in the capital of the Reichsbank is not advisable, because, on the one hand, I can not be sure that, as the result of such an increase, the Reichsbank will be strengthened in its capacity for drawing in gold and for retaining gold, and because, on the other hand, it is just as difficult for me to imagine that by means of this increase the Reichsbank will be enabled to maintain, or to introduce, an economically sound policy of low discount.

Gentlemen, the most important point, to my mind, in all the statements, written and spoken, that have been brought before us during the inquiry proceedings, is the solemn assurance of the Reichsbank president [quite right!] that in the future the Reichsbank, in its discount operations, will confine itself, even more than it has hitherto done, to receiving legitimate business bills—that is, economically justified fluid bills. [Quite right!]

Gentlemen, it seems to me that many of you do not sufficiently appreciate the importance of this declaration. Even if our whole inquiry should appear to have no success at all in forming outside opinion, I should consider that it had achieved a tremendous success if it should have at least the effect of strengthening the Reichsbank administration in carrying out this assurance of theirs. Gentlemen, if the Reichsbank keeps to this principle you have won everything that you could, in

any practical sense, possibly desire. You have, to begin with, the necessary influence upon the whole activity of the Reichsbank. A bank or a banker will hardly be inclined to replenish the portfolios to any great extent with such bills as can not be accepted by the Reichsbank. But you not only get the desired moderation of the banker in treacherous times, you get also the desired moderation of the banker in point of the number and the kind of customers whose drafts he will accept.

Geheimrat Von Gamp declared this morning that it was really remarkable that precisely in the hard times of the past year industrial interests in the great industrial districts made so very little demand upon the Reichsbank. I think that Geheimrat Von Gamp overlooks the fact that the greater part of the industrial world no longer uses bills at all; that very large dealers and producers are obliged to sell entirely upon open credit; that therefore the buyers, too, must mobilize their regular outstanding debts not by direct drafts but by credits, which, whether in cash or in the form of drafts, they obtain from the banks. If the declaration made by the Reichsbank president, Herr Havenstein, is carried out in practice we shall have, in the activity that will follow, a sure guaranty that a moderation on the part of the banking world will necessarily take place, a moderation which is desired by many. But we naturally have, in addition to the moderation of the banking world, also the moderation of manufacturers and tradesmen and other entrepreneurs, which will cause them to keep their business within such limits that we shall not be so likely to

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be again confronted with the situation in which we found ourselves last year—that of an overloaded stomach.

Now, gentlemen, if you are agreed with me that we really all ought to do everything we can to nail the Reichsbank down to this declaration, then I confess I do not understand why some of you wish to confer upon the Reichsbank the Greek gift of a large increase of capital. I consider a *great* increase of capital to be not merely inadvisable but dangerous. Gentlemen, if I had my little say in the administration of the Reichsbank, I should contend with all my force against a large increase of capital. Why? An essential part of the reasons have already been submitted to you by Herr Fischel and Geheimrat Riesser. I should like to call your attention also to a few little points which will perhaps make the matter more clear to you.

Gentlemen, to do business—and here I think every business man will bear me out—is not difficult; it is ever so much more difficult to refrain from doing business. I think that a great many of you who are practical bankers still remember, as I do, the time when the private discount rate was 1 per cent, and it was extremely hard for every banking business to employ even a part of its cash assets in a prudent way. Gentlemen, it is precisely at such times that most unsound businesses are started and established. The businesses come to your notice generally much later, but they are more or less compromised just at such times. Now, if the Reichsbank in its discount policy will fulfill only legitimate demands, then we must next ask ourselves: Has the Reichsbank then hith-

erto not fulfilled these legitimate demands in the German Empire? Has any one of you ever heard a well-grounded complaint from anyone who had been turned down by the Reichsbank? I must confess that I have not. I have never heard of the Reichsbank turning away, in the discounting of such legitimate and economically justified bills, a man who was prudent and economically on a sound footing—whether a manufacturer, a merchant, a farmer, or a man of any other business that you may name. Very well, then; we have seen that the Reichsbank is fully able to respond to these demands; it has the means to do so. And are we now to burden the Reichsbank with this gift—and that at a time when, presumably, we are about to live through for a year, or perhaps two years, to come, a period of very little financial activity? I should not like to undertake the responsibility for such an act.

But I see also other reasons. From the standpoint of the Reichsbank administration, I should feel a certain fear of stepping into the midst of the factions that are contending with each other out here. As regulator of our monetary circulation, as guardian of our currency, the Reichsbank absolutely requires a certain independent position, which is provided for it by its capacity for quick decision. If it is hoped and wished—as it apparently is, to judge from certain of the speakers' expressions—that the direct credit activity of the Reichsbank may be strengthened as opposed to the indirect credit activity, then I must admit—and I believe the matter has already been referred to by one of the other speakers—that I do

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not in the least look upon that as a desirable strengthening of the inner soundness of our Reichsbank. If the Reichsbank has to deal with the real taker of credit only indirectly, it can send him away very easily in case it thinks that a certain restriction is needed. But if the taker of credit is before him in the flesh, it makes a world of difference to the standpoint of the one who does not wish to continue a grant of credit. I must confess I should prefer to have a third party to whom I may say, "I do not want that bill any more," rather than have the man face to face with me, while thinking to myself, "you know you will have to say B, too, after you have once said A and committed yourself."

The idea has been expressed, I think by Herr von Gamp that the Reichsbank would necessarily have more of an understanding of what takes place in industry, or in our economic activities in general, if it entered more often into practical activities, and consequently were more in the way of quickly perceiving, and hence, also, of influencing the indicative phenomena in this or that sphere, or in the economic sphere as a whole. The statement was not expressed in these words, but I have gathered as much from the tenor of certain remarks that have been made. Yes, gentlemen, this perception on the part of the Reichsbank, and the possibility of such a perception, really exists in every sphere, and to as great an extent as the Reichsbank can possibly desire. [Quite right!] Every man in Germany who is engaged in industry will put himself in every respect at the disposal of the Reichsbank whenever the latter may happen to question him with the

object of obtaining direct information about his business situation, or about the situation of his line of business. In most cases, I think, he would look upon it as an honor to be asked to assist at such an investigation or at such a discussion. Of course, here and there an obstinate fellow will turn up and say: "I have no need of the Reichsbank. What business has the Reichsbank to inquire into my circumstances?" I think, however, that these exceptions are so insignificant that one need not take them into account.

For all these reasons, I should emphatically warn you not to offer to the Reichsbank a large increase of capital.

What the Reichsbank itself thinks about the question of increasing the capital we do not know; but after the expressions which we have heard from President Havenstein, and to which I referred above, I can hardly conceive that the Reichsbank will be in favor of having a large increase of capital as such. Perhaps it will even decline the offer of such an increase. A small, moderate increase of capital—by which I mean an increase of 20,000,000 or 40,000,000 marks—I should consider to be in itself insignificant, not sufficiently significant to cause me to make an energetic effort against it. I should come to a definitive decision as to whether such an increase is serviceable from the standpoint of the community if I had first heard the opinion of the Reichsbank itself, which would then have to set before us its own observations and experiences and the position that it takes, which we naturally have to take into account in all the inferences we make. This, for well-considered reasons, the Reichsbank will not do, at least not now.

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Consequently I sum the matter up thus: From the standpoint of the interests of the community, I should not condemn as hazardous the plan of increasing the capital of the Reichsbank by 20,000,000 or 40,000,000 marks, nominal value. I should even consider it advisable, if the Reichsbank itself approves of increasing the capital to this extent.

Now, for the question of the surplus. My principle as a merchant is that one can never have enough surplus. In accordance with this principle, therefore, if for no other reason, I should consider the opening of the surplus at the Reichsbank to be in itself worth consideration; I should consider it to be advantageous. The proposition made this morning by Herr Geheimrat Wagner could be very well combined with this idea. As I understand it, the existing surplus is employed, when necessary, to bring the dividends up to $3\frac{1}{2}$ per cent. It would be advisable to create in connection with the surplus which, upon the extension of the bank's charter, might have to be formed anew, a surplus No. 2, or whatever else you choose to call it. A means of removing the risk on the fiscal side could be found in this: In the event of non-renewal of the charter, three-fourths of this second surplus would be assigned to the Government as against one-fourth for the shareholders. So that the apparent sacrifice of the State would not itself count for much. This second surplus would perhaps be practically formed in this way: In case there should be on hand distributable profits amounting to more than a 6 per cent dividend, a certain fixed percentage of these profits should go to

the second surplus. If there should be a smaller amount of profit on hand, so that the distribution of a dividend of 6 per cent would not be practicable, then the amount might be increased from perhaps $3\frac{1}{2}$ per cent to 6 per cent out of this reserve fund.

The question of the raising of the note contingent I should answer as follows:

From hearing the case stated by a number of experts, I have become convinced that, as things now stand, a certain raising of the note contingent is advisable, and I should fall in with those who consider an increase of about 100,000,000 to be a suitable amount. But I should not wish to conceal the fact that in regard to this question, too, considerable weight must be given to the position taken by the Reichsbank itself. It can not be denied that with the raising of the note contingent the Reichsbank administration would give up a factor which hitherto has stood it in good stead in the effective resistance to such sentiment as has opposed a raising of the rate of discount. We have heard, and we ourselves know, that the note tax in itself has not influenced the policy of the Reichsbank with reference to discounts. We can therefore imagine that, without reference to the question of note tax or no note tax, the Reichsbank will in the future regard a raising of the contingent as desirable. In that case, if the contingent is raised, the Reichsbank can no longer have recourse to this argument, so easily grasped by the great mass of the people: We have gone into the note-tax region by such and such an amount—we can do nothing more for you. We weaken the

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Reichsbank, therefore, in the ability to ward off certain attacks; but this argument will perhaps not be made much of by the Reichsbank itself.

For the rest I see no risk, from the standpoint of the community, in raising the note contingent by about 100,000,000.

While I still have the floor I wish to add to my observations a personal remark, which I should not like to have omitted, apropos of the speech made to-day by President Heiligenstadt.

President Heiligenstadt has depicted for us according to his conviction a remarkable type of the director, or of a director, of a great bank. He did not mean to give offense. I am, consequently, very far from finding in the picture of this type as drawn by the gentleman aforesaid any ground for irritation. But I should not like to let this legend about the type of a great private bank director pass entirely unchallenged by us, who are, or have been, bank directors, and in the presence of those gentlemen who have in charge the mercantile education of our young business men. It is all the more clear that President Heiligenstadt meant nothing derogatory, from the fact of his having at once added that if he were such a director he would of course act in the very same way. Well, President Heiligenstadt, you are not yet such a director. But I believe that if you were you would not be one long. [Quite right!]

You have said: "I can not blame the leaders of the great private banks for thinking only of their own banking interest—that is, of the interest of the shareholders and that of their institution—as distinguished from the com-

mon interest." Ah, respected Mr. President, but that is quite impossible! Certainly, I can conceive the matter from the standpoint referred to, thus: You will be gaining a great thing for your institution. But if I look upon the question to some degree from a less short-sighted point of view, then it must be clear to me that if I injure the community in which my bank has its roots, with a great proportion of all its engagements, I shall sooner or later have to deliver up this temporary gain, and deliver it up with a large increment. I think, therefore, gentlemen, that there are very few of such bank directors as Herr Heiligenstadt conceives. But there are a great many who feel very clearly their responsibility, not on moral grounds, but on grounds of business expediency—we, in our position as merchants, will quietly let the matter rest upon the prosaic basis—who feel, then, their responsibility, in view of the fact that they themselves and their own interests would be the chief sufferers from an act that was in opposition to the general interest. [Quite right!]

The CHAIRMAN. Gentlemen, it remains for me to give those gentlemen a chance to speak on question II who replied this morning only to question I, and I request the different speakers to add at the same time whatever remarks they may be inclined to make in connection with our last debate on question I.

Freiherr VON WANGENHEIM. Gentlemen, as for the increase of the note contingent, I am on this point in agreement with the gentleman who has just spoken. I would not deprive the Reichsbank of the means of defense which it now has in the limitation; and just at present I should

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consider a further increase to be not without risk, since we are presumably on the eve of a great extension of the check and deposit business.

As to the complete removal of the note tax, I can not muster up any enthusiasm for that. I think that in this matter, too, a danger signal must be retained. In case of the nationalization of the Reichsbank the tax would be given up.

I am surprised that in to-day's debate there has again been such scornful mention of the small revenue which the government obtains from the Reichsbank. When I then observe how in the proceedings of the Reichstag the smallest sum is haggled over, I can not understand that contempt, and I bring up again the old agricultural principle: "Even small cattle make manure." [Laughter.] Even small sums are not to be despised.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, I will refrain from replying to views with which I differ. I wish to make just one remark: I do not understand how several gentlemen—the last speaker among others—could say: "I am under any circumstances opposed to an increase of the capital of the Reichsbank."

Mr. ROLAND-LÜCKE. To a large increase!

Freiherr VON GAMP-MASSAUNEN. To a rather large increase; but surely surpluses can not be enough. I admit that in the relations between the shareholders and the Government it makes a difference whether the working capital is enlarged through an increase of surplus or through an addition to capital. But so far as concerns the economic question, Does the Reichsbank need more

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money? it is a matter of complete indifference whether it acquires this money by way of an increase in its share certificates or by way of an increase of the surplus. Therefore the difference is not at all clear to me. I particularly fail to understand how one can maintain that the surplus must in any case be reinforced, for this reinforcement is exactly what we want. Whether it be done in this way or in that is matter of indifference. I admit, too, that this reinforcement can also be introduced in the manner suggested by Herr Lücke. Even his other lucubrations about the distinction to be made between the shareholders and the Government appeal to me a good deal.

I shall now say a word about the tax-free note contingent. Gentlemen, if it were really a storm signal, I, too, should be in favor of it. But many of the speakers have overlooked the fact that the Reichsbank has, not once but repeatedly, declared that it would not permit this note tax to cause it to raise the rate of bank discount unless this increase should be justified and necessary on general grounds. The Reichsbank has therefore itself declared: This danger signal I ignore. I will not proceed to raise the rate of bank discount because a passing of the tax-free limit is to be expected. Now, gentlemen, if you will glance at the last yearly report you will find that in the year 1907 the tax-free note contingent was passed twenty-five times; it was passed continuously from September 30 to December 31, and part of the time it was passed by hundreds of millions. Is that a danger signal? [Yes!] Not at all. [Yes!] It falls through com-

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pletely. Gentlemen, if you should raise the tax-free limit, which is now at about 470,000,000 marks, to 700,000,000, then the tax-free limit would in the past year have been passed only on January 7, on March 30, and on June 29—that is, three times—and from September 30 on, eight times—altogether, therefore, eleven times. If the tax-free limit were fixed at 800,000,000, it would still have been passed seven times. A temporary excess of this kind would fit in with the idea of regarding the limitation as a storm signal.

Gentlemen, it must be, moreover, admitted that there is an essential mistake in principle at the bottom of the determination of the measure of this tax-free limit—namely, the mistake that it is absolutely rigid and utterly independent of the proportion in which the notes are covered. It is quite plain that the notes are secured in a very different way according as there is or is not a considerable covering in gold, and that if you have the means of covering 500,000,000 and have at the same time 500,000,000 in uncovered notes, that is quite a different situation from what exists when you have covering for a billion and have 500,000,000 in uncovered notes. It is, therefore, under any circumstances, a fallacy that lies at the bottom of this regulation; a fallacy, moreover, which is evidently seen through by the Reichsbank administration, for the latter has repeatedly declared, and has also acted upon the resolution, that it will not raise the rate of discount because it has overstepped the tax-free limit. In my judgment this would, anyway, be a more rational plan: That when the note issue exceeds a certain amount

the percentage of the note-covering be raised by a third. This I should pronounce rational, or else that with an increase in the stock of gold the freedom from tax be extended. We can then say: If there is a larger note covering, then the notes of the Reichsbank are necessarily better secured; then I do not need this provision of the note tax.

I will not here enter further into the question of whether it is rational or justifiable to accept silver coin and imperial exchequer bills as note covering; there will still be an opportunity for discussing that matter another time.

I will therefore sum up my view as follows: I consider the note tax to be altogether irrational, and I should be in favor of its removal as such. The matter has not any large financial importance for the Government. Last year is the only year in which we have had such an exceptional situation that the note tax amounted to from 5,500,000 to 6,000,000 marks. I would suggest that if there is to be a tax, the tax-free note circulation be made dependent on the ratio of the gold cover in such a way that the tax-free note circulation would be extended along with an increase in the percentage of the gold cover.

Doctor STRÖLL. At this late hour I do not wish to keep you any longer by taking up the question of the contingent; and have the less reason to do so, since in the protocol of subcommission I my view is laid down more than once.

I will merely sum up very briefly: I am of the opinion that the provision of a contingent, in which I seem to perceive a basic and important principle of the bank law

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of 1875, should be retained; that, however, the amount of tax-free notes should be increased to the point of, say, 550,000,000 or 600,000,000.

For the rest I refer to my opinions expressed in sub-commission I, especially on page 70 and the following pages and on page 89 and the following pages in the stenographic report.

Doctor WACHLER. Gentlemen, with reference to the question of the contingent or the freedom from tax in case the note limit is passed, my position is that the fixed establishment of a definite sum, which with the permission of the bank law may well have seemed under the circumstances then existing a justifiable method of determining the contingent, has nevertheless turned out to be a failure. I take the position that the contingent, assuming that the Reichsbank needs to have it raised, should be raised.

Furthermore, I must say that the suggestions made by Doctor Schmidt with reference to increasing the contingent seem to me to be appropriate, and, if they are feasible, to be worthy of consideration.

Mr. KAEMPF. Gentlemen, I look upon the establishment of a contingent as right in principle. I consider that a raising of the tax-free note limit is not in itself advisable; I even think that it is advisable constantly to keep in mind the fact that the issuing of notes is no magical performance and that the economic needs of the public are better served if an attempt is made to bring about as great a saving as possible of circulating medium. The English bank act has in my judgment

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worked to very great advantage in this respect, that, whatever other deficiencies it may have, it has fixed a certain sum beyond which uncovered notes may in no case be issued. We have a better regulation of the matter than the English bank, inasmuch as beyond a certain amount we can still issue notes, but for these uncovered notes beyond the fixed amount we have provided a tax. That we have in this an appropriate danger signal seems to me indubitable.

Freiherr Von Gamp confuses two things; he confuses the danger signal which is given to the Reichsbank on occasion as an indication that the rate of discount should be raised with the danger signal for the public. The latter is what we are concerned about; for the Reichsbank is of course always in a position to survey the situation for itself.

As for the raising of the tax-free note contingent, I have already said that for one reason I am opposed to an increase; I consider it unnecessary if we continue to take care to economize the circulating medium. But if it is proposed that we undertake an increase of the capital of the Reichsbank by as much as 60,000,000 marks, I should make no objection to having the tax-free note limit increased in the same measure, so that the tax-free note contingent would be increased by about 80,000,000, or, if you like, 100,000,000. This position I take to be justified also on this account—I am anxious that we should not in any way create the impression of finding it necessary to raise the tax-free note contingent in order to satisfy the needs of credit, which, as we see, are, for the present, already decidedly on the decline.

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Mr. SCHINCKEL. Gentlemen, I must recur, in a word or two, to the very interesting excursion which Doctor Heiligenstadt has undertaken to make with us into theoretical political economy, and I recur to it indeed for a purely personal reason. President Heiligenstadt mentioned me twice as responsible for the remarks made by Freiherr Von Wangenheim. That is not right. Herr Von Wangenheim traced the root of all evil to an unmeasured—that was his word—use of credit and granting of credit. I have, on the contrary, endeavored to prove that if banks and industrial societies had to grant to trade, to industry, and to agriculture more credit than is, perhaps, for their own sakes desirable, there were quite legitimate reasons for the necessity of granting this credit, since it was called for by the emergency. I particularly guarded myself against using the word “unmeasured,” because I can not regard a legitimate act as being covered by this term.

I shall, of course, refrain from a further examination of the subject, although I have received the impression that many other things that President Heiligenstadt said about the credit banks prove that, though he has shown himself to be in sympathetic relation with them, he does not know how things are carried on in these banks; otherwise he could not possibly have made the observation about the heads of the great credit banks which has already been objected to by Herr Lücke. All I can say is that if the heads of the great credit banks were such people as they are represented to be by Herr Heiligenstadt, they would not long be able to retain their present posts.

There is something I am anxious to say to those gentlemen who still, even after these ten years, keep in view

the plan of the nationalization of the Reichsbank. It is precisely these people who wish to make the Reichsbank shares accessible to the little people without limitation, though of course at a high rate of interest. I must confess that I regard this as an extremely precarious measure. I believe that, as Doctor Schmidt has already remarked, it is quite impossible to do this without limitation. If ten years hence the question is to be brought up of nationalizing the Reichsbank and making the buyers take back their capital under the present conditions, I do not think it will be possible to unload Reichsbank share certificates at so high a rate upon these people who, moreover, if the capital is increased, will not in the following years have such large receipts as before.

As to the question of the note contingent, I share the view of Stadtrat Kaempf—that it is absolutely indispensable. There might be a question of raising it a little; I should prefer, however, to leave it as it is. We are constantly being told that it is no longer a danger signal. Yes, of course; for him who will not take a warning, it is no signal. But gentlemen here are always bringing forward the argument that in the last year the contingent was passed twenty-five times. This precisely proves that one should look ahead, and the facts have shown how this signal ought to have worked; for in the autumn the great gold stringency, or the high rate of discount, came on precisely because people had not paid enough heed to the warning. I would therefore by no means give up this danger signal, and I should not advocate more than a very inconsiderable raising of the note contingent, a raising

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which could perhaps be brought into accord either with the capital that is to be freshly issued or with the surpluses which are to be freshly accumulated. In the latter case I should consider that the proper sum to add to the tax-free note contingent would be five times the amount of the surpluses to be accumulated.

Mr. FISCHER. Gentlemen, I should like to express myself on the subject of the contingent. I hold that the abolition of the contingent would be a great mistake. The contingent, in my opinion, does not serve only to give warning in case of a certain note issue; it is an absolute necessity for the security and solidity of the notes, in that it prevents their being issued in unlimited quantities. This limitation is accomplished in different ways by different institutions. In the Bank of England and in the Bank of France an absolute limit is fixed, which has in both cases repeatedly shown itself to be inadequate. If we should abandon our contingent, then there would remain only the limitation of the one-third note covering. I consider this latter limitation to be entirely inadequate to secure us against the possibility of an excessive note issue, which would be apt to influence prices and to stimulate speculation. It was certainly the intention of the lawmaker when he fixed the figure of the contingent to set thereby a limit which should be decisive for the circulation; and I am convinced that it was not expected that this figure would as a rule be reached; it was to be, on the contrary, a maximum for normal conditions. But in order to avoid the mistake committed by the passage of the Peel Act, they did not set a fixed and absolute limit, but

left open the possibility of issuing more notes under certain hard conditions; that is, by payment of a 5 per cent note tax. I should regard the removal of the note tax as a thing to be deeply regretted, since with this the natural means of limitation would be lost.

But for the very same reason—just because I believe that the figure of the contingent should be decisive for the normal circulation—I do not hold that the figure, once fixed, must be valid for all time. We have already found that it has proved to be too small. That is perfectly natural, for the situation of the German Empire in the year 1875 was quite different from the situation of ten years ago, and the circumstances to-day are again different, and it may be that in ten years still further essential changes will be introduced. Now, it is extremely difficult to fix upon a figure which shall hold good for any long period of time, and which can be regarded as corresponding to a normal uncovered note circulation. In considering the Reichsbank figures, in so far as they concern the note circulation and the metallic cover, one comes to perceive that in the last two years we have been in no normal condition, and, indeed, principally because we had not in the Bank sufficient means of obtaining gold. For a correction of this abnormal situation I should therefore look chiefly to an attempt to raise the figure of the metal. Thanks to the exertions of the Reichsbank this has in part already been done up to the present day. But if we return to a normal metal figure—which, in my opinion, would have to be higher than it was ten years ago—then I should see nothing dangerous

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in raising the figure of the contingent for uncovered notes. So far as this I would go in agreement with Herr Freiherr Von Gamp—namely, if we had not already established another contingent system I should perhaps have considered it highly desirable that the banking law read simply thus: 'The notes must under any circumstances be covered by metal to the extent of one-third, but if the cover is less than two-thirds, then further circulation is subject to tax. But to go over to this system to-day would, in my opinion, involve a risk. For example, in the last years, with the low figure of the stock of gold, we should at certain times have actually had at our disposal a smaller contingent of tax-free notes than we have under the present provisions of the law, and that at the very moments when the Bank was, apart from this, very much drawn upon. The impression which would be produced by the circulation of a much greater quantity of tax-free notes I should have considered to be not without danger to the whole economic situation. I have no intention of referring in this connection to foreign countries, because I believe that we ought to make our laws for our own country and manage our affairs according to our own needs. But even at home great harm may be brought about by an excessively anxious view of the situation. I wish to point out that all those acute crises which have been observed in different countries—in England, in America—have always been caused far more by the view of the situation taken by the public in the country itself than by the judgment of foreign nations. And I am inclined to think

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that if in the past year we had had a lower limit for the contingent (at the time when the present limit was overstepped), this circumstance would have caused great confusion in people's minds, and there would have arisen a public unrest which might have worked much mischief.

Now, a study of the figures of the note circulation seems to me to indicate that we ought, in point of fact, to have recourse to an increase of the contingent. I find, that is, that if we take the figures of 1897—I have chosen the average figures—the note circulation amounted to 1,085,000,000, but in the preceding year it amounted to 1,478,000,000; there is, then, an increase of 393,000,000. If we compare the highest figures of the two years—1,320,000,000 and 1,885,000,000—then the increase is even 565,000,000. The first figure, 393,000,000, requires, however, a certain correction. We must subtract the difference in the note circulation of the private banks, which at the end of the same period had about 38,000,000 less in circulation than they had at the beginning; and we must further allow for the smaller circulation figure of the imperial treasury notes, which fulfill in trade the same economic function as the bank notes; that is, we must subtract 60,000,000. Even when we make this deduction, we find that an increase of 295,000,000 for the aforementioned ten years still remains. This raising of the figure can not be matter of surprise, since there can be no doubt that it is to be ascribed in part to a very pronounced boom (*Hochkonjunktur*). If we look at the tables that Herr Christians has placed at our disposal, we shall find that the figures of bills at the banks rose

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from 2,190,000,000 to 4,460,000,000. It is, therefore, in point of fact, not only the business of the Reichsbank, but also the great increase during this time of trade in general that makes it impossible to doubt the justifiability of such an increase in the notes.

But, gentlemen, the really abnormal thing is another figure. In the year 1897 the amount of metal in the Reichsbank was 871,000,000 marks; that in the private banks was 81,000,000; that is, there was altogether 952,000,000. In the year 1907 there was 843,000,000 in the Reichsbank, 65,000,000 in the private banks—only, therefore, 908,000,000 in all. We find, then, that, while there took place a great development of trade, and while this development should have been met in large part by an increase of the gold supply (since it occurred in a period of very extensive production of gold), as a matter of fact our gold supply in the vaults of the banks of issue fell off by about 44,000,000 marks, and consequently we had in the country an uncovered note circulation greater by 340,000,000. I should not be in favor of correcting this condition by authorizing the use in trade of such large amounts of uncovered notes. I should wish the correction to be effected by an increase of the stock of gold at the Reichsbank by, let us say, about 250,000,000. But up to a certain point it seems to me we are justified in raising even the normal figure of our note circulation, and for this reason I should be in favor of raising the note contingent to 550,000,000 or 600,000,000, and thus making legitimate the sum of about 90,000,000, which would in that case be left over as increase.

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Now, reference has been repeatedly made to the effect as a danger signal of the passing of the tax-free limit. It is quite true that in a certain sense it does serve as a danger signal, and I can not admit that the frequent sounding of the danger signal would dull our sense of the danger it indicates and that we should finally pronounce the danger signal to be useless. If we have had in the last years such a frequent overstepping of the note contingent, this has happened precisely because we have been in an altogether abnormal situation in point of economic development as well as in point of the condition of our circulation and the condition of the Reichsbank, and it was actually beneficial for us to receive frequent warnings. The danger signal, therefore, I would retain, but I question whether this danger signal does not often sound at the wrong time. If we say that we must be able to have a certain quantity of uncovered notes in circulation, we ought to keep in mind that at the quarterly periods the demand upon the currency is much greater than it is at other times, for an overstepping of the limit at these periods is nothing abnormal, while at other times it should be regarded as abnormal.

I should therefore like to make the following definite proposal: It should be provided by a new banking law that the tax-free note limit be in the general run of the year 550,000,000 marks, but that at each quarterly period it be raised to 750,000,000. Whether this increase shall be confined to the first week of the quarter or shall be extended over two weeks is a question still to be considered. I think that we should in this way manage to bring the danger signal into repute again, and to have a compara-

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tively correct figure for the extension of the note circulation.

May I be pardoned if I now turn back for a moment to the remarks of President Heiligenstadt? Doctor Heiligenstadt has said that he can not understand why I believe that, if the capital is increased, an increase of the portfolio also would necessarily follow. I must stick to this opinion. I believe that the figure of the notes which are in circulation has nothing to do with the direct satisfaction of the need of credit by the Reichsbank. The figure depends upon the quantity of circulating medium that is necessary, at the moment in question, for carrying on the business of the whole country. I do not think that if, by means of such an operation as the increase of the capital of the Reichsbank and the issue of new shares, a certain amount of the circulating notes, 70,000,000, 80,000,000, or 100,000,000, should be temporarily introduced into the Reichsbank—I do not think that in this event the need of circulating medium would be in the least affected. I am rather of the opinion that it would remain absolutely unchanged, and that the real outcome would be that the bank would very soon be obliged, in fulfilling its function of regulating the monetary circulation, to bring new circulating media into the market by way of its discount business or of its collateral loan business.

I see that on several other points I do not agree with President Heiligenstadt, but I do not wish to take up too much of your time.

Mr. FISCHER. I am in favor of the increase of the note contingent to the sum of 600,000,000 marks, in considera-

tion of the development which has taken place in the Reichsbank in the last ten years and of that which I hope will take place in another ten years. I join issue in this matter with others who have spoken, and I merely wish to observe that the danger of our coming to have too much gold seems to me not a great one, when I reflect that the development, for example, of the use of electricity for the long-distance railways, of the building of canals, of the opening up of our colonies by railroads, etc., will continue more and more; that vast amounts of capital will have to be devoted to these operations; that probably before long our whole industry will in any case be somewhat limited in its home development; and that it will for that very reason all the more extend its money transactions abroad, and will need all the more capital for larger undertakings in foreign countries.

Doctor WAGNER. Gentlemen, I should like to say a few more words about the increase of the capital, inasmuch as the subject has come up again several times.

I will sum up once more my remarks of this morning. I was really at the beginning rather more inclined than I am now to declare myself in favor of increasing the capital. It is from listening to the debates and hearings of the experts that I have come to be somewhat in doubt on the subject. Therefore, I had in mind this morning a proposal which I now repeat. I suggest that in the draft of the law this provision be made: The Bundesrat is empowered, during the period of the next charter of the Reichsbank, to allow an increase of capital not exceeding 60,000,000 marks (a third of the present bank capital)

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if the Reichsbank administration proposes such a measure; and this increase shall be made at such times and in such amounts as the Reichsbank administration deems suitable. This plan would fall more or less within the bounds suggested by those gentlemen who were not altogether in favor of an increase, but who thought an increase allowable if it did not go beyond 240,000,000 marks.

In this connection I come for a moment to a point that has been alluded to by my special colleague, Professor Lexis, among others, namely, the significance of the basic capital as guaranty capital. I can not altogether share the view expressed by him and by others, that it is not the case with foreign banks also that the whole basic capital enters into the question. It is true that in the Bank of England a large part of the basic capital is fixed, but the whole operates as guaranty fund—that part of its capital which the bank of England has permanently loaned to the State, as well as other capital that is lent out and invested—for the permanent loan has behind it the whole credit of the State. Things are much the same in France. Then, too, I do not think that my colleague, Herr Lexis, is right in regarding the amount of securities in the issue department, which now is, in round numbers, £7,000,000, as entirely unrealizable. To my mind this is not the case. The bank is empowered to issue in England, without metallic cover, only a certain maximum amount of notes—at present this amount is about £18,500,000; these notes must be covered first by the £11,000,000 of permanent debt of the State held by the bank, of which I was just speaking; secondly, by the further sum of

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£7,000,000 in certain securities. But if this amount is not reached while the metallic cover is further extended, then appropriate sums out of these £7,000,000 can also be made use of; the Bank of England can then dispose of these amounts. We must accordingly admit that a part of the capital can also serve as a business fund. The considerations of my colleague, Herr Lexis, concerning the note issue, I therefore regard as not quite to the point.

Then, too, the question has been treated, if I am not mistaken, by Herr Kaempf, who stated that he would favor an increase on condition that the Bank's concession were made of longer duration. Perhaps it was Herr Geheimrat Riesser who said that. [Assent.]

To this I would reply: I think we should consider whether we ought not to declare ourselves in favor of a longer grant than one of ten years, with the stipulation that the Bundesrat be authorized, without consulting the Reichsbank, to add to a period of fifteen years, say, an additional period, making a total of, say, twenty or even twenty-five years. In this case I, too, should come near to favoring the plan.

In connection with the question of the note contingent, another point has to be considered. Although I think we should attach much importance to what men of practical experience say, still, as a man occupied with theories, who has in former years studied with particular care the situation in England, I should like to introduce another point of view. I have already in the subcommission referred to the question of the origin of the Peel Act, and I sum up again here the consequences of the fixing of a

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contingent, as they have come to light in both countries—in England very markedly, with us in a less obvious form. How did the whole thing originate in England? In the most arbitrary manner; because it was thought that all dangers of speculation and excessive speculation, such as lead to crises—for instances of which reference was still made to the year 1830—are to be traced to an uncovered note issue that is too loose, too large, too imprudent. It was thought, therefore, that such a note issue ought to be most absolutely prevented; and all the differences between bank notes and real redeemable paper money were overlooked. This idea can be traced throughout the whole of English literature on the subject of banking. Thus the Peel bank law was framed with the purpose of causing the changes of volume in the note circulation to be precisely the same as would be the changes of volume of the circulating medium under a purely metallic money system. Thus they thought: If, for example, £3,000,000 cash come into England from abroad, then in the case of a purely metallic currency the amount of it would be increased by £3,000,000; and, vice versa, if £3,000,000 leave the country it would be diminished by £3,000,000. • The object of the Peel banking law was likewise to bring about this same result automatically in a currency consisting of both bank notes and gold. But it is well known that in practice this has not been the result, and the principle is also fallacious from the standpoint of scientific theory, for the incoming and outgoing of precious metal has no such immediate effect upon the amount of the circulating

metallic medium. This has been often enough acknowledged by both practical and theoretical Englishmen.

More than this. In England they have at least drawn the logical conclusion. They have divided the bank into two departments—the one, the issue department, for the issue of notes; the other, the banking department, for the other banking businesses—deposits, granting of credit, investments. The deposit money is specially covered by cash (essentially gold), which is placed in the other department only in return for notes. In this way, then, they have divided the stock of gold. This does not become outwardly apparent only because, as has been said, the cash of the banking department consists nominally of notes which the banking department has received for its cash from the note department. Essentially its cash is gold. With us, however, this division of the cash has not been introduced at all. We have imitated the English in a merely mechanical way. Whoever knows the circumstances knows that it came about in this way. It was introduced by the disciples of the English free-trade school—Prince-Smith, O. Michaelis, and others; they did not, however, in this matter copy the Peel act consistently, since they made no provision for a cash fund for the deposit business. But as soon as the cash reserve in the banking department or the note reserve in our bank is much diminished, there arises great anxiety on the part of the business world that has need of credit; the demand for credit is correspondingly increased and makes itself felt earlier and more urgently than is necessary, and the establishment of the contingent serves to make the situa-

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tion in the money market more tense, and even to bring about a panic. It has been truly observed that in this way demands for discount come to the bank sooner and with greater urgency—an event which is bound to have evil results of this kind; especially, of course, in England, where the contingent fixes an absolute mechanical limit to the quantity of notes that may be uncovered by gold. In former times it was £14,000,000; now it is about £18,500,000. The more it appears that the reserve of the banking department is running out, the stronger becomes the pressure of demands for discount. For this very reason they have come in England to a conclusion which I should hold to be not a mistaken one for Germany also, namely, that this so-called danger signal comes at the wrong place and at the wrong time, and that its effect is too acute. I should like to say that the thing is still more unsuitable for our German situation, because with us distrust is spread abroad as soon as the note reserve, which is otherwise regulated, comes to fall off more and more, and people begin to say that before long the German Reichsbank will be obliged, because of the falling off of the note reserve, to take still more strenuous measures in raising the rate of discount. In this way it may even happen, for example, that shipments of gold from abroad, which are intended for us, are held back until the rate of discount shall be higher. I can not but think that this, too, has a bad effect. It was precisely because we profited by the long experience of England that we in Germany instituted the modification of making it possible to pass beyond the uncovered note contingent, though the additional issue was subjected to a tax.

But though in a weakened—and in so far in an improved—form, the arrangement still works with very much the same results as in England. Among us, too, there is spread abroad too quickly and too vehemently an anxiety which does not end in simply throwing an immediate damper upon the tendency to speculation—which would be a desirable thing—but which has also a very strong tendency to induce even normal demands of credit to be made upon the Reichsbank much sooner than they would otherwise be made. In this I can see nothing propitious. The danger signal does, in fact, operate here, but in a wrong manner; it precipitates and increases the demands for credit that are in question. And for this reason I always arrive, after consideration, at the same conclusion: It would really be better to lay aside the whole system of the contingent. In this connection I should like to recall to you the dictum of a great English practical expert, Lord Ashburton, who once said that there is really nothing more absurd and presumptuous, when one is dealing with such matters, than to put a mechanism in place of the human understanding. And this is what happens in England in the case of the Peel act, and what happens also, in my opinion, with us in the German Reichsbank law. We must, then, trust the bank administration to do the proper thing without any such mechanical prescriptions.

Reference has been made by Herr Fischel to the Bank of France. But the Bank of France has no regulations of this kind; it is unencumbered by them.

A VOICE. The note circulation is limited.

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Doctor WAGNER. Very well; if we had, like France, a maximum note circulation of 4,000,000,000 marks and more, the effect would again be different, for there would remain, precisely at critical times, a large scope for extended issue of notes and granting of credit. For the rest, however, it is noteworthy that this bank, which now has the largest supply of cash in the world, has throughout its existence been free from such restrictions, and it is one of the functions of the bank administration to determine the relation between the quantity of notes and the cash funds. Besides, our bank is anyway already limited by a contingent through the provision that at least one-third of the notes must be covered by cash—a provision that might also, perhaps, be somewhat modified. I agree on this point with what Herr Fischel has said. Every such provision of a cover is also sure to have a more or less mechanical and obstructive effect, but its influence is not as great as that now exercised by the note-tax regulation.

Now, I know very well that serious misgivings are entertained in regard to a complete removal of this contingent system. It is feared that the impression made abroad would be unfavorable. I do not think so; we should not rely so much in these matters upon foreign opinion. Moreover, if England were to-day to get rid of the Peel act, which has long been considered antiquated, would it be thought that the Bank of England was no longer solvent? People would see that it is a restriction that is out of date and not to be retained. Nothing more would be thought in our case. The Bank of England

even affords an example of how prejudicial, precisely in the matter of the judgment of foreign countries, such a provision may be. I am probably the only one here who remembers distinctly the crisis of 1857. I was still a student, but I was already engaged in banking work. I know that, when the Peel bank act was then suspended for the second time, the cry was heard from the continental press, and even from the voices of experts, that the step was equivalent to the suspension of specie payments, simply because the Bank of England was allowed, on the responsibility of the ministry, to issue uncovered notes beyond the legal limit. In reality this was not the case; there was no discontinuance of specie payments; but people got things confused in their minds. It may happen in the same way with us.

Hence I arrive at the conclusion that it would be better altogether to drop the fixed contingent of the bank's note circulation, than merely to raise now and then the contingent limit. But I admit that with us public opinion is not in general on that side. I have been convinced, to my sincere astonishment, that even most men in practical business are more or less supporters of the contingent system.

On the other hand, fiscal reasons will be brought to bear against the removal of the contingent. The Government needs the note tax. According to what has already been said, large sums are supposed to be in question. But I am going to make a calculation to the opposite effect. What, then, does the note tax really mean to the Government? In point of fact, it means very little. The

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Government has, to be sure, received out of it in the past year the "gigantic" sum of 5,600,000 marks; by this very amount, however, is the net profit diminished, and therefore the net profit drawn by the Government is diminished by three-quarters of this amount, or 4,200,000 marks. Without the note tax the dividends would have been 1,400,000 marks higher—that is, about three-fourths per cent. It is clear, then, that the matter is not financially important for the Government. If we wish to have regard for the financial interests of the Government, we can easily do so by arranging that the share of profits be a little bit—a fraction of 1 per cent—more favorable to the Government; that the proportion be somewhat in excess of 3:4.

But if the gentlemen think, as I have become convinced they do, that it would be well to retain the contingent as a "danger signal," then, to be sure, it must be raised. I wish here to declare myself in favor of the proposals made by some experts. My idea is this: Since we have latterly made large encroachments beyond the contingent, let us raise the sum to 550,000,000 or to 600,000,000, and then—here I agree with others—let us raise it still higher at the much-discussed quarterly periods; for at such times there may be a greater need of credit, and it is precisely then that the chief function of the central bank of issue comes into play; for such a situation in the money market corresponds to a political crisis. I once had somewhat different views, but I have also become convinced that in passing through the quarterly periods there is need of a larger issue of notes, and that this is also justified in view of general interests.

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If, then, the usual contingent is fixed at 550,000,000 or 600,000,000 marks, it can, I should say, be raised at these periods by 100,000,000 or even 200,000,000—that is, it may become 700,000,000 or 800,000,000. Even the ungraded rate of taxation that we have had hitherto might be retained; but it should be raised still further when the overstepping of the contingent goes beyond 550,000,000 or 600,000,000. For example, it should become 6 per cent when the note issue is 700,000,000 and 7 per cent when the note issue is 800,000,000, and 1 per cent more for every added 100,000,000.

If England has had the experience of being obliged, at critical times, to go as far as a 10 per cent discount rate, the same thing may happen to us. In that case we can always have in view a further raising of the tax-free contingent. But for the present it will be sufficient to fix the ordinary contingent at 550,000,000 or 600,000,000, with a note tax of 5 per cent, and to tax a further excess at the quarterly periods in the way I have indicated.

That is what I wished to add to my observations in regard to the contingent system and the note tax. I should like to lay stress once more on this point: It would be better, in my opinion, if our bank administration, like that of France, were trusted to make the proper arrangements on its own responsibility. At present it has to keep within the mechanical regulation, which may on occasion cause much disturbance.

Doctor HEILIGENSTADT. Gentlemen, some of you have concerned yourselves with my observations, and I am therefore led to make a few personal remarks.

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In the first place, Herr Geheimrat Riesser mentioned my speeches and represented me as having said that only the capital contained in the Reichsbank can retain the form of working capital. If I really did say that, it is simply a matter of inaccurate expression. In my speech I stated my view with great precision, and said: Such capital as comes into the possession of the Reichsbank remains and is preserved under all circumstances in the form of working capital. I do not by any means mean to convey the idea that all capital which otherwise comes into the possession of the great banks is necessarily deprived of this character under all circumstances. That would be nonsense and would contradict the statements which I have published and which are before you in printed form.

Then, Geheimrat Riesser expressed the opinion that the capital which has come into the possession of the Reichsbank was being used and that it was utilized for investment purposes. The aim of capital is that it should be utilized, but it should be utilized in a liquid form. It does not lose its character as working capital by the mere fact that the Reichsbank makes use of it, but on the contrary it remains working capital whether the bank uses it for buying up bills or not. At the present time, as the president of the Reichsbank explained at the outset in this inquiry, only three months bills were discounted and no extension was granted. By this means an adequate negotiability is effected and at the same time the capital is all preserved as working capital.

After that, Herr Fischel found fault with our analysis of the form that capital assumes when it has got into

the hands of the Reichsbank. I think it possible that we may have misunderstood each other—

Mr. FISCHEL. It is possible.

Doctor HEILIGENSTADT. For I have always maintained and insisted that the capital that is to be devoted to the increase of the permanent capital of the Reichsbank ought to be drawn from newly created capital. When this capital gets into the hands of the bank, bank notes will disappear in a proportional measure from circulation or else there will be an increase in the stock of gold.

Mr. FISCHEL. But business can not spare the bank notes.

Doctor HEILIGENSTADT. Then the proportion of reserve to circulation would be a more favorable one, Herr Fischel.

Mr. FISCHEL. I can not see the point.

Doctor HEILIGENSTADT. I have explained all this in my printed statements, to which I can refer you. Then came Herr Schinckel and complained that I had not quoted him correctly. If that is the case, I am sorry for it. This, however, does not alter the matter much, for it is the very directors of the banks who have expressed themselves in the sense of the quoted passages. I recollect that only a little while ago Herr Roland-Lücke was speaking even of an overloaded stomach.

Mr. ROLAND-LÜCKE. In general, of course.

Doctor HEILIGENSTADT. In general. I have said nothing else in the statements which I have made on top of those of Herr von Wangenheim, whose presentation of the matter in question I may possibly have confused with your assertions.

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In the next place, Herr Roland-Lücke seized the opportunity of making a personal onslaught upon me which I am convinced is not justified by my assertions. You know, gentlemen, that I have no reason here for wishing to set before you the type of a bank director, that I have never done that sort of thing, and am not in the habit of doing it. I shall proceed to repeat my statements. The whole of the testimony of the specialists—I need only remind you of the testimony of Geheimrat Mueller and various other utterances of the *Haute Banque*—went to prove that they wished to be considered as having been forced into many transactions only in deference to competition and the like. What is it, then, that I have been trying to explain? I have been treating you, gentlemen, to a little theoretical (as Herr Schinckel calls it) disquisition in the field of economics, which I thought necessary for the establishment of my view to the effect that an ascending conjuncture (*steigende Konjunktur*) is accompanied by an accelerated rate of production. The expert, Herr Heyman, has admitted the truth of this on a former occasion and Herr Fischel has also confirmed my view. I have furthermore explained that as a large number of bills are discounted by the banks—I am not speaking of the great banks but simply of the banks in general, and these bills are also discounted everywhere by the loan associations—a fictitious credit (I can not think just now of a better expression) is virtually created. I must ask you to take all this in the sense in which I have meant it, that is to say, that there is practically a credit without any equivalent in commodities.

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Now, what I have affirmed is—and your remarks can apply to this alone—that the banks are compelled to make of this credit a productive agent, a proceeding which I consider perfectly legitimate. This is all that I have said. And now you come and construe this in such a way as to make out of it that I was here depicting a type of a bank director who was subordinating the public welfare to private ends. I have emphatically insisted that if I were a bank director I should by all means consider myself just as much constrained out of regard for my duty in the matter to invest the funds which had been committed to my charge, as the occasion prompted, in the interest of my bank as well as of the stockholders. There is not the faintest suggestion in this—the idea was as far as could be from my thoughts—that I was trying to draw a picture of a bank director such as might give umbrage to you. Aside from this I am not aware that I have said anything about bank directors.

Doctor RIESSER. I should first of all like to address a few words to Freiherr Von Gamp. The Reichsbank has practically always declared that it could never be induced out of regard for its liability to taxation to raise the rate of discount where otherwise it would not have done so. But the Reichsbank has never declared that it attaches no importance at all to the limit of untaxed circulation. Neither do I see how it could possibly take such a position, for, in spite of everything that has been said to the contrary, I am convinced that the limit of untaxed circulation is, and is bound to remain, a danger signal, and that as much for the bank with respect to its granting of credit as for the public which is asking for credit.

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I should like to reply to President Heiligenstadt that I think he has misunderstood me. The passage I had in mind is not at all the one he has just quoted. It was a comparison between the manager of a private bank and that of a national bank that the president had been making.

DOCTOR HEILIGENSTADT. No.

DOCTOR RIESSER. Yes; you declared that although the position taken would not appear any more acceptable or more correct in the eyes of the Reichsbank directors, you too, if you were a director of a private bank, would have regard for nothing else than the business interests of the institution and of the stockholders.

To this Herr Roland-Lücke gave the proper reply: "Then you would not be able to retain your position as director very long." And to this I will add that I have always insisted that even the directors of a private bank occupy an official position and do not merely carry on a business; that is to say, that they have not merely to consider private business interests, but that in every transaction they are bound not only to consider its bearings upon their business affairs, but to keep in sight its economic aspects in connection with the economic situation of the country.

DOCTOR LEXIS. Gentlemen, I should like to say a word or two with reference to the remark of Geheimrat Wagner. He must have misunderstood me if he imagined that I attach no significance to bank capital as a security fund and that I do not consider the part played by the capital of the Bank of England in this capacity of much importance. I was not speaking of the question of a

security fund at all, nor had I any idea of doing so. What I said referred altogether to working capital. I asserted that the Bank of England has no working capital at all, its entire capital being in the nature of a security fund. That is what I meant, though perhaps I may not have expressed myself with sufficient clearness. The second point is that, as a matter of fact, the entire capital of the Bank of England, and even the sum of 80,000,000 marks over and above it is immobilized, for there are £11,000,000 representing the old debt in the issue department and an additional £7,750,000 consols, likewise in the department of issue, as a further security fund for uncovered bank notes, and the banking department can not touch this capital. If it did, then the limit of bank-note circulation would have to be correspondingly lowered.

Doctor WAGNER. The moment the cash reserve gets beyond this, the bank can make use of part of it.

Doctor LEXIS. That is to say that the banking department, if it has superfluous gold, can get bank notes from the issue department. But the balance sheet of the issue department reads on the one side only as follows: "Total bank notes issued" and on the other "cash and consols." The banking department can absolutely not touch this capital; that is simply impossible. If it did do so, the limit of circulation would have to be changed.

Doctor WAGNER. It seems to me that there are other securities that can be hauled in besides the guaranty securities.

Doctor LEXIS. The banking department has, of course, consols of its own. It is at liberty to dispose of these.

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Mr. FISCHER. Gentlemen, I have suggested that the limit of untaxed circulation be raised to 550,000,000 marks as the normal limit, but that at the quarterly periods, to wit, for the first and second weeks, the limit be made 750,000,000 marks. In regard to this Geheimrat Wagner has suggested that it would be good policy to tax the excess circulation at the quarterly periods at a higher rate than the excess at ordinary times. This would not be expedient, in my opinion, for the additional 200,000,000 marks does not by any means correspond to the increased tension that we generally observe at the quarterly periods, as manifested by the increased circulation in comparison with ordinary times. In my opinion, 750,000,000 marks at the quarterly period is a smaller figure for the extreme normal limit than 550,000,000 marks for the limit at other seasons. The proper thing, therefore, in my judgment, would be to impose a uniform tax on circulation, whether it be beyond the limit of 750,000,000 marks at the quarterly periods or 550,000,000 marks at other times of the year.

Doctor HEILIGENSTADT. Permit me first of all to say in reply to Geheimrat Riesser that he has been making too much of the contrast which I appeared to have in my mind when I made use of the expression "private banker." I do not see how I could have done anything beyond simply comparing the position of a private banker with my official position as head of a public-credit institution. It is not my main task as head of a public-credit institution to earn dividends, but I consider it the duty of a private bank to turn out reasonable dividends.

Doctor RIESSER. That alone, and nothing else.

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Doctor HEILIGENSTADT. Gentlemen, there are some in this very assembly who have demanded this of the Reichsbank.

If I may be allowed to speak with reference to other expressions that I have heard, I will say that Director Schinckel was kind enough to call my attention to the fact of my having declared that if I were a private banker I should be guided only by the interests of my shareholders. It is true, gentlemen, that I spoke thus; but, of course, I did not mean to say by this that the public welfare was thereby to be overlooked. Nothing could be further from my mind. You will agree with me, gentlemen, every one of you, that you are bound to look out for the interests of your shareholders and your bank. I will ask you to convince yourselves of the correctness of my assertions through the stenographic reports. I shall not make any corrections in the stenographic reports at the place in question.

Mr. ROLAND-LÜCKE. I infer from the words of Freiherr Von Gamp that I did not express myself with sufficient clearness in regard to a provision for additions to the surplus. What I had in my mind was a sum of 1,000,000 or 2,000,000 marks annually. As I was not thinking of any higher sum, it is evident that an accumulation of, at most, 10,000,000 or 20,000,000 marks in the course of ten years would be in line with what I have been suggesting.

So far as President Heiligenstadt is concerned, Geheimrat Riesser and Director Schinckel have kindly spared me the trouble of making a response. This is the way the independent proposition of President Heiligenstadt, which is still in my ears, sounded: "It seems natural to me

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that the heads of great private banks should think only of the interests of their shareholders and of their institutions, even if these be opposed to the public welfare, and, if I were such a bank director, I should do likewise." This proposition evoked a reply on my part, and has, as a matter of fact, been adequately discussed by Messrs. Riesser and Schinckel. I am perfectly satisfied now with the explanation of President Heiligenstadt. I did not intend, indeed, to make a thrust at him; what I meant to do was merely to avert the danger of a false interpretation being put upon the assertions which he made at the start.

The CHAIRMAN. Gentlemen, the last speaker on the list has been heard.

I must inform you that, in accordance with an understanding arrived at between that gentleman and myself, Freiherr Von Gamp will not produce the special statistics with respect to the origin of the bills which he asked for this morning, for the reason that this would involve considerable work for the Reichsbank and would in part be even impossible, and I wish to add that the statistics which Herr Von Gamp has called for respecting the amount of the loans for the period 1900 to 1907 and the annual statements of the banks for the same period will be tabulated at our hands according to the private tables that have appeared in the *Deutscher Ökonomist* and in the *Frankfurter Zeitung*. I assume that the members of the committee of inquiry approve of this.

(Assent.)

Gentlemen, we have come to the close of our deliberations, and I thank you heartily in the name of the federated

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governments, and especially in the name of the Reichsbank, for the zealous assiduity which you have displayed in the prolonged discussions of the day, for the valuable and manifold suggestions with which you have favored us. I hope, gentlemen, that I shall have the pleasure of greeting you in the autumn in unimpaired numbers and vigor, prompt as now with your suggestions and ideas. In the meanwhile "*Auf Wiedersehen!*"

(Close of session, 8.15 p. m.)

MONDAY, *October 12, 1908—10.16 a. m.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN,
President of the Reichsbank direktorium:

GENTLEMEN: Let me welcome you in the Reichsbank to a renewal of our discussions, and let me thank you for coming in such numbers to resume your labors and discussions, as well as express the hope that our deliberations may prove of great benefit to the economic welfare of Germany and the interests of the Reichsbank, and that they may achieve results worthy of your labors and devotion.

I have first to inform you that the following members of the committee of inquiry have asked to be excused from appearing to-day: Freiherr Von Cetto-Reichertshausen, who can not come until to-morrow, and Count Kanitz, who may join us to-morrow, but possibly not until the day after.

The following members of the committee of inquiry are present: Messrs. Fischel, Fischer, Freiherr Von Gamp-Massaunen, Gontard, Kaempf, Doctor Lexis, Mommsen, Mueller (Fulda), Peter, Raab, Doctor Riesser, Roland-Lücke, Schinckel, Doctor A. Schmidt, Singer, Doctor Ströll, Doctor Wachler, Doctor Wagner, Freiherr Von Wangenheim, and Doctor Weber.

One of the imperial commissioners, Ministerialdirektor Weingärtner, has had to excuse himself on account of official business.

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The list of those present at the sessions will be kept daily, and I shall therefore request the members to enter their names.

It is in order now to open the debate.

Question III.—What means are available to the Reichsbank for promoting the drawing of gold from foreign countries, and for obstructing the outflow of gold to foreign countries?

A.—How may the importation of gold be effectually promoted? By suitable management of the discount policy? By development of the foreign exchange business? By the granting of advances free of interest or similar methods of facilitating gold importations?

(B) What are the causes of an outflow of gold to foreign countries, and by what means may it be prevented? What is the nature of the so-called premium policy, under what conditions is it applicable, and how does it work?

I propose, gentlemen, that we adhere to the method of debate which was followed in the case of questions I and II of our question sheet, and which seems to have worked very well—that is to say, that each member shall express his opinion regarding the individual questions, as the imperial chancellor is anxious to get the views of all the gentlemen constituting this committee of specialists; but I wish to say emphatically that I do not by any means wish to restrict the members to this single expression of their views. I should, on the contrary, be glad, and I should appreciate it, if these individual expressions of opinion were followed by general debate, so as to produce a discussion calculated to throw light on each question.

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I think it would be best, just as was the case at the hearings of the experts, to discuss the questions of the influx and of the efflux of gold jointly, as it is practically impossible to separate the two. I suggest that you deal with, or, if you choose, touch upon, the question of the effect of the discount policy in so far as it is determined by the conditions prevailing in our national economy, or reacts upon it. I think it would not be wise to deal separately with the question of the international balance of payments. The experience which we had in connection with the special debate on this subject in the spring shows that there is no getting through with this theme. If the balance of payments is to be discussed at all, I would suggest that this be done along with the discussion of questions A and B. The questions pertaining to the organization of the business of foreign exchange, advances without interest, the gold market, and the gold-premium policy are in my opinion such closely circumscribed subjects that it would perhaps be better to leave them out in this first discussion in order to deal with them separately later on, so that at the outset we may be able to confine ourselves altogether to the matter of the rate of discount, dealing with it particularly with respect to its effect upon the inflow of gold and the prevention of its outflow.

Freiherr VON GAMP-MASSAUNEN (proceeding to the order of the day). I should like to ask the chairman to be kind enough to inform me when and where a very important question is to come up for discussion—that relating to the consumption of gold throughout the country in the various industrial processes. This question is not on

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the question sheet, but it is one which has been treated in a very thorough manner by those interested in the subject, and I regard it as of great importance, inasmuch as a considerable quantity of gold is withdrawn from circulation through its employment in the arts.

The CHAIRMAN. I think we shall be able to take up this question in connection with the outflow of gold.

Freiherr VON GAMP-MASSAUNEN. The point named is "outflow of gold to foreign countries." I am willing, however, to have the subject discussed in that connection.

Doctor STRÖLL. Gentlemen, in considering the subject of Germany's stock of gold and the inflow and outflow of the metal, what is paramount is our international balance, which is not the balance of trade alone, but the balance in the whole account of sums payable and sums receivable. For us seated around this table to try to affect this balance is attempting the impossible. This is a matter of the national industry, and it is a matter of national polity in the highest sense of the word. If we come forward here as counselors of the Imperial Government, all that we are called upon to do is to express our opinion in regard to the expedients more or less radical that present themselves in the technical domain of banking and currency—expedients which can not be determining factors in the situation, but merely cooperate in shaping it.

If we were constantly to have an unfavorable balance, Germany would be compelled to see an ever-increasing fraction of its stock of the precious metal going abroad. The question, therefore, to what extent we have a balance against us is one that in my opinion we can not altogether

get around. Unfortunately, this question is not one of those that can be answered the moment they are put. One of our experts made use of the refreshing expression that he did not care a straw, not a pinch of snuff, for the balance of trade. Of course, I am not prepared to go quite so far as that; but there is one thing, however, that I think we must admit, and that is that we have hitherto not had any reliable gauge of our international balance; and, as a matter of fact, we have none yet. We can indeed figure out our balance of trade, but it is impossible to ascertain the amount of our capital invested abroad or of our investments in foreign securities. It is a question in my mind whether the method of Professor Schaer, which as you know has not remained unchallenged, is sufficiently effective to supply this need. We are still obliged to make conjectures and estimates and to be satisfied with just a few indications bearing upon this matter.

One of the main indications is, especially if we consider a long stretch of time, the country's stock of gold; and not only the visible stock of gold in the banks of issue, but also that invisible, or, at least, not measurable quantity of gold which is circulating among the population itself. With respect to this matter various opinions have been expressed in the course of this bank inquiry. While some have considered this gold circulation within the country to be quite sufficient for the need, and even plentiful, others, on the other hand, have expressed the view that Germany has in a way reached a stage of anæmia with respect to its gold. On this account, indeed, the

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suggestion has been made—it comes from Freiherr Von Gamp—that a census be taken of the gold supply, which, however, in my opinion, would for practical reasons be utterly impossible.

It is my opinion that in this matter, just as in most human affairs which are open to controversy, the truth is probably somewhere about midway between the two extremes. As I was on my way to Berlin last May to be present at the bank inquiry the following considerations relative to the gold question presented themselves to my mind. As a director of a bank of issue my daily experience showed me that we have a currency pretty well saturated with gold. I could see that in the Reichsbank and in the private banks fluctuations in the stock of gold are very quickly leveled out and that the ups and downs in the record come pretty close to each other, all of which points, of course, to the fact that there is gold to the stage of saturation in our supply of the instruments of exchange. Statistics had taught me, furthermore, that in the past ten years—leaving out, of course, the year 1907—gold to the amount of about one and a half billion marks was supposed to have flowed into the German market. I knew perfectly well, besides, that it is only in very exceptional cases that the Reichsbank has raised its rate of discount merely for the reason that gold was leaving the country. And I also knew that Germany has been steadily growing richer and is constantly making investments of capital in foreign countries, and that the sums which Germany draws from these investments in the way of interest, etc., would much more than suffice to offset the amount by which the

balance of trade is against us. I was aware, too, that thinkers who have a broad outlook upon the economic situation—such men, for instance, as his excellency, our chairman—regard Germany as a creditor state, having in the long run a balance in its favor, and that they consider a temporary outflow of gold as of little importance. Furthermore, I said to myself that such critical times as those of 1907, such a conjuncture of a great domestic demand and an international scramble for gold, are not likely to repeat themselves. And finally—and this is a very important point, with respect to which I agree perfectly with Herr Von Gamp—I was acquainted with the official estimate of the consumption of gold in the arts, which at that time was assumed to be somewhere between 14,000,000 and 20,000,000 marks, and I considered such an amount as of little moment with respect to the stock of gold in the country.

If, actuated by these facts and considerations, which in my opinion do not by any means justify a pessimistic view of the situation, I adhere, on the whole, to my view, and if I still believe that, while we have an unfavorable balance of trade, we have a favorable balance of international obligations, yet there is one point—and here I am coming to the matter that Herr Von Gamp has touched upon—in regard to which I must admit that I have been undeceived, and that is in regard to the needs of the German gold industry. I was astounded by the alleged figures of the yearly consumption, running up to between 80,000,000 and 100,000,000 marks, as well as by the egoistic naiveté with which the representatives of the gold industry regard

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this assault upon the German coinage gold as, from every point of view, their prerogative, not only legally but morally, taking it all as a matter of course. If it is true that every year from 80 to 100 millions find their way into the melting-pot, then indeed the pessimistic dread of anæmia in the matter of gold is not to be reasoned away.

Freiherr VON GAMP-MASSAUNEN. Hear! Hear!

Doctor STRÖLL. What does it all mean? And so we are to take it that the gold which we purchase each year with such painful toil, the gold that represents the surplus of our national industry, is not devoted to our pressing monetary needs, but is offered up to the Moloch of industry [A voice: Moloch?]*—*at least of one industry, which, in my opinion, is arrogating to itself altogether too much in this matter of the use of our coinage gold. Of course, I am not speaking of a Moloch of industry as a whole. I clipped the force of this expression the moment it was uttered, so as to guard against a false interpretation. I, for my part, consider the recognition of the fact that we are annually sacrificing between 80 and 100 millions of the German coinage gold to the demands of industry one of the most important fruits that the whole bank inquiry has brought forth.

Freiherr VON GAMP-MASSAUNEN. Quite correct!

Doctor STRÖLL. I regard it as a sort of warning which we have received at the eleventh hour. And we may be glad of this warning; the question is whether we are going to heed it in the future. As far as I am concerned, the fact that so much gold is swallowed up by the industrial arts is sufficient, as I have said, to make me take a less

optimistic view of our gold situation in its entirety than the view I took in May, when I first came here. This consideration alone ought to justify each and all in urging every means tending to encourage the importation of gold and to hinder its outflow.

Let us ask ourselves what are these means, remembering that in this inquiry we are to deal only with such instrumentalities as pertain to banking and coinage. In my opinion—and Herr Von Gamp has anticipated me—the question sheet which is to serve as our guide in these discussions needs an addition in the way of a question concerning the consumption of gold in the arts. I should like to dwell on this question for a moment.

In this matter a change will have to be made, not by means of a revision of the bank law—we had better leave the bank law alone—but by an amendment of our coinage regulations. What we have to do is to introduce some kind of provision in our coinage regulations that will tend to do away with the evil in question. The coined gold of the German Empire is gold of a specific kind; it is worth while to guard it by imperial enactments, and it is necessary to make some legal provisions with respect to it. This coin gold is altogether different from the international gold bullion, which is regarded as merchandise, and which, for aught I care, industry can get hold of to its heart's content. When we are told that it is not merely the German gold industry that is drawing upon the nation's fund of the precious metal to satisfy its needs, but that this same fund is being made use of to a very great extent by the Scandinavian countries, then I must

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say these are conditions that call for the intervention of the Government. I am not a metallurgist and do not pretend to know how to go about it myself. But it seems to me in a vague way that the chemical science of Germany ought to be able to devise some way, by introducing some alloy or other in the composition of the coin gold, of preventing industry from appropriating this gold regardless of consequences—some sort of an alloy, I say, which, while not depriving the gold of its fitness for coinage and recoinage, would at least render its use in German industry difficult. Personally I should not be sorry at all, in case of necessity, to see a penalty imposed upon the use of the German coin gold in industry, for the public good is paramount to the property rights of the civil law.

I now come to the question of the possible means of increasing the gold supply as formulated under Head III of the question sheet. Fresh light has been thrown on this question, as you all know, by the interesting and weighty suggestions of our distinguished colleague, Herr Fischel. Some of the means which he suggests strike me as desirable and worth considering, while others appear less adapted to the end in view. A very effective means in my eyes would be the vigorous prosecution by the Reichsbank of the foreign-exchange business. This comes naturally within the province of a central bank, whose business it is to regulate the circulation of the currency and to be the guardian of the monetary standard. The more completely the Reichsbank takes charge of the exchange business, the more it monopolizes it, in fact, the better. The Reichsbank would in this way be at all times in close touch with

the money markets as well as with trade in general, as behooves an institution which proposes from its coign of vantage to take a calm survey of the economic situation and to influence it. I should like to see the Reichsbank as accommodating and liberal in its dealings as possible, subordinating its own business interests to the interests of the public. I do not consider it necessary to enter into details at this particular moment, all the more so as the splendid exposé which has been drawn up by Geheimrat Von Lumm has made it evident that the new bank management in this very matter has struck out upon a path different from that pursued by its predecessors, that it has profited by the lessons furnished by other countries, and that it has already greatly improved the situation as compared with the previous state of things. Of course there is no use in imagining that we can accomplish everything, for there is no way yet found of getting rid of the foreign acceptance. The main trouble is always with the English acceptance, and regarding this in particular Geheimrat Von Lumm expressed himself very guardedly, in my opinion rather too optimistically, if I may venture to say so, for he hinted at the contingency of war and fancied he ought to appeal to The Hague conference. For my part I must say that I would not give a straw for this kind of comfort, for if we were to set about now to mobilize our army the Reichsbank would, as was the case with the Bank of France in 1870, start up at once as a war bank and as a national bank, and the enemy would have the job of a financial fight with us. If the English bills of exchange in the hands of the Reichsbank should make an

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extravagantly big lot, they will in time of war undoubtedly be immobilized from time to time. Whether that be a great misfortune is not so certain. On this account also I am not in favor of having the foreign bills of exchange reckoned as part of the bank's stock of gold, as has often been urged. For, as I have said, in the event of a future war, there is going to be more of a financial contest than has been the case hitherto. If the business of foreign exchange, by reason of the meager returns in the way of interest and more or less loss in the matter of exchange, makes some demands upon the unselfish spirit of the Reichsbank, the same thing is true in a much greater degree in the case of the so-called "inducements" which the Reichsbank in various ways offers to the gold importers. Such a way of promoting the inflow is certainly very commendable. The newly-shaped activity of the bank has already shown quite extraordinary results, and if the Reichsbank intends to continue on this course and succeeds in taking the gold that comes to Europe in the spring and autumn and reserving part of it for its needs, I believe we shall have made a great step in advance. We can certainly point already to decided progress. We financiers in the interior of Germany are not in a position to give much advice regarding the traffic in gold, as we see too little of it. As for myself, it would be presumption on my part to do so.

For the same reason I hesitate to express any opinion regarding the suggestions of our distinguished and well-informed colleague, Herr Fischel. I can hardly say indeed that my opinion amounts to much more than a

general impression. My impression is that we have before us a specialist of the first rank, who has taken the results obtained from the observations and experiences of many years and condensed them into a precise expression of his views, which is highly deserving of our consideration. The fundamental idea of Herr Fischel that Germany ought to have a place in the sunlight in the matter of the traffic in gold and the acquisition of the metal resulting therefrom, and that she ought to free herself from the fetters which she has placed upon herself, I consider perfectly sound. Among the means which he particularly suggests for attaining this end are the abolition of the seigniorage which is laid upon the Reichsbank, the establishment of a gold market in Berlin, and, in connection with this, the establishment of a gold refinery.

I believe firmly in the proposition that the Reichsbank be relieved of the expense of coinage. The bank is doing all that can be asked of it in behalf of the public good. As to whether the establishment of a gold market in Berlin along the lines suggested by Herr Fischel is practicable or not, I have no opinion to express one way or the other. As I have said before, I am too far away from the field to assume the attitude of one who thinks he knows. What I am able to say, however, is that I shall welcome every measure aiming to secure for Germany as large a share as possible of that precious commodity of all nations which we call gold. And if now and then this has to be achieved at some sacrifice, I am none the less in favor of it, as I consider the whole thing consistent with sound principles of economy. For even the temporary

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possession of gold may be of the utmost importance to us, and the more gold we manage to secure, the more readily shall we be able in untoward times to hold on to it, and the closer shall we get to the view of our good old Ludwig Bamberger, who used to say that there is no sense in being excited if occasionally a couple of dozen millions of the precious metal slip out of the country, as they are pretty sure to return with the advent of better times. We should not feel ourselves compelled in the case of a legitimate outflow of gold, such as took place in 1907, to interpose various difficulties and vexatious impediments, a proceeding which may have appeared very patriotic but which in my opinion did more to lower us in the estimation of the world at large than has been generally supposed. Dealings in foreign exchange, inducements in favor of gold imports, and the measures suggested by Herr Fischel are all links in a single chain, not of uniform strength indeed, but as a whole very powerful and capable of producing important results.

Having referred to these practical measures for the protection and security of our gold supply, I shall just take the liberty of saying a few words concerning one less practicable and another altogether impracticable means. The less practicable means is the one which I shall designate as screwing up the discount; the utterly impracticable one is the putting of a premium on gold.

The operation which I call screwing up the discount has no permanent effect in the way of causing an accession of gold but merely a temporary one, due to the attraction to the bank of short-term funds, which perhaps, as an

addition to our working capital, we can not always spare, even if the cost be excessive. On the other hand the higher rate of discount is such a burden upon our domestic economy that we can not in the long run get along with such a system. I repeat then, in the long run under a gold standard, this is an unpractical means because it is burdensome to our industry and occasionally has even the effect of choking it.

As regards the scheme of putting a premium on gold, I should consider any attempt to introduce it, or to carry it through, simply fatal. What sense is there in adopting this alleged method of protecting the gold supply, which in the land of its birth, in France, has been almost completely abandoned and is being replaced by a rationally adjusted foreign exchange and discount policy? Why should we adopt a means which may perhaps protect the gold in the bank but as a result of which the gold in circulation will all the more easily become the prey of the exporter? What is the use of constantly bringing up the conditions in France in the discussion of our own situation? They are not at all applicable, being fundamentally different from our own. And in my opinion the conditions here are in many ways so vastly more sound and normal than those prevailing in France that any analogy with reference to our situation would be wholly illogical. And why should we, by putting a premium on gold, plunge the German public everywhere into strife, excitement, and turmoil merely in order by doubtful means to protect—and that is only a supposition—a nation's stock of gold which protects itself without artificial means and without

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any change in the foundations of our monetary standard, simply through the ordinary course of events? I am so thoroughly convinced that there are but few in this commission, and perhaps none at all, who are advocates of this premium idea that I hardly think it necessary to proceed beyond these few remarks.

In all questions concerning gold and our policy with regard to it the Reichsbank stands at the fore. To it as the legally constituted guardian of the monetary standard new tasks are constantly assigned, entailing trouble and sacrifice, while at the same time it is expected to apply more searching and comprehensive methods to the discharge of its previously existing functions. The Reichsbank knows what everyone knows, that we have entered upon a new age, and that this means new methods, new aims, and new duties. The fiscal and more or less bureaucratic standpoints which in past years have largely characterized the bank's policy are gradually disappearing, relegated to the background. The spirit that is now asserting itself absolutely above all else is the consciousness of the national character of the institution, a regard for the public good, divested of all considerations of private gain. I cannot help thinking that the Reichsbank is now entering upon a new phase of development, tending toward a loftier plane and still higher aims, and there is a general impression that the new management, without departing from its time-honored traditions, does not underrate the problems of the present and is not going to shirk its duties. I am sure that every patriot has reason to congratulate the Reichsbank heartily on its past record and on its deter-

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mination to adapt itself to the needs of the present situation.

The CHAIRMAN. I would once more suggest to the members that in order to prevent these discussions from being too desultory, they reserve the questions relating to the conduct of the foreign exchange business, the gold market, and the gold-premium policy for future separate discussion, and confine themselves for the time being to the general question of the discount policy of the bank with reference to its effect in attracting gold and preventing gold exports, as well as upon the domestic situation generally.

Freiherr VON GAMP-MASSAUNEN. Do I understand that the suggestions of Herr Fischel in regard to the drawing of gold from abroad may be discussed in this connection?

The CHAIRMAN. I will ask you to include in this discussion such questions as that of the gold market.

I have to inform you with reference to the suggestions of Doctor Ströll respecting the danger to our standard coinage resulting from the melting down of large quantities of German gold, that we have since last spring been doing the very thing that he has proposed and have consulted the various assay offices, mints, etc., in regard to the possibility of restricting this use of the standard metal in the arts by means of some alloy. We have not received all the reports as yet. As far as they have come in, however, the result is emphatically negative. We are told that no means has as yet been found of treating the metal in such a way as to leave it suitable for coinage and at the same time to render it unavailable for industrial purposes. Gold that admits of being coined can just as easily be converted to the needs of industry. Thus far, I repeat, the

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answers are not affirmative, but we are still awaiting further reports.

Doctor RIESSER. I will take the liberty of asking the chairman to reconsider whether the plan of dealing separately with the foreign exchange business and the gold premium is really practicable. I must say in all modesty that I do not think it will work. There is such a close connection between the subjects that it is almost impossible in discussing the question of the inflow of gold or the possibility of preventing the export of gold to abstain from making some slight reference here and there to foreign exchange or the fastening of a premium on gold. But whoever happens to speak will hesitate to treat of such weighty questions merely by way of allusion and in an incidental manner, especially when these subjects are introduced for the first time. I would ask the chairman, therefore, to consider if it is not practicable for us to discuss these questions also, with the proviso that, in case it should turn out—which, however, I do not believe—that these questions have not been fully discussed, we shall deal with them once more each by itself.

The CHAIRMAN. I have no objection to having the question of the gold premium discussed along with the other questions in a merely cursory way. I believe, however, that the subject is so very broad that the moment contradictory views clash with each other in this commission it will be utterly impossible to do otherwise than discuss the question thoroughly apart from everything else. If the members of the commission are unanimous in regarding this matter of a forced gold premium as some-

thing impracticable and are not inclined to go deep into the question, we shall at all events soon get through with it. But I should like to wait and see whether the exchange of views is not going to develop into a thorough discussion, which I should indeed consider highly desirable.

Freiherr VON GAMP-MASSAUNEN. I should like to second the request of Doctor Riesser. I hardly believe that there will be any protracted discussion regarding these two points in particular. Each one of the speakers will take occasion to define his attitude in a few strokes. It will expedite business very materially if we can settle the matter right here. Judging by the course of the discussions in the commission—the president did not attend all the sessions—I have come to the conclusion that there is not going to be any great diversity of opinion in the commission in regard to this matter of a gold premium.

The CHAIRMAN. Very well, gentlemen, suppose we try the experiment of including these two subjects in the discussion of the question before us. We shall see how far we can get.

Mr. GONTARD. Chairman and gentlemen, just after a banker has had the floor [interruption] or at least a representative of the banking fraternity, it may appear somewhat presumptuous for one who does not belong to that guild to get up and address you. I shall begin by protesting against the expression which we have just heard applied to our manufacturing industries, "that Moloch of industry," even if the author of it saw fit to recant in a measure.

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I say, gentlemen, that if the members of this commission, as one of the experts has put it, have been summoned as physicians on account of the general financial depression of 1907, which affected above all our manufacturing industries, to make a diagnosis upon our national body and, as skilled hygienists, to advise regarding the best way of bringing our gold circulation or our impoverished capital—I will not call it blood—into better condition, it is natural for us to ask: Which parts of the body were to blame for the ailment?

It will not take us long to find out that the situation in the autumn of 1907 was not an actual sickness but rather a healing process, partaking of the nature of fever, which the overstrained body—the whole body—was undergoing, for, as Menenius Agrippa put it in his fine way to the ancient Romans, it is not possible to separate the individual parts from the whole body. And therefore I protest against putting the blame for the trouble on any single part, as, for example, our manufacturing industries. All the various parts were involved, and even those that could not be held responsible were obliged to yield to the combined pressure of the others.

Our people as a whole has not gone beyond its means, for the national wealth is very great; but it has not been able for a while to accommodate its expenditure to its income. This trouble begins unfortunately with the Empire, whose finances the representatives in the Reichstag propose to straighten out, and spreads to the municipalities and the educated classes, who are too anxious to live well and up to the standards of fashion to be able to

lay aside much money. That there have been large numbers of people who have been saving money is evinced by the 15 billion marks in the savings banks and the three and a half billion in the loan associations and banks, in so far as these represent actual savings. But, all the same, this is much too little considering the demands of German enterprise, taken in conjunction with the rise in price of raw materials within the last few years. Neither are the funds of savings banks, which are invested in mortgages, sufficiently elastic to help us tide over a period of financial depression. Nor should they be used for such a purpose, for that class which brings its money to the savings bank consists of people of the least means in the whole country, and it is certainly not the class whose wealth ought to be invested in risky undertakings. I am not aware that there is any table giving the statistics of the various classes of depositors in the savings banks. If there were such a one it would comprise, or at least it would have comprised up to a short time ago, many more members of the laboring classes than one would imagine. To show how difficult, how impossible, it would be to find out, even with the aid of statistics, what section of the population is ultimately responsible for the financial depression, I am going to give you an example from my own experience.

The ordinary conditions of sale in the soap business are several months' time or a small fixed discount for cash, at the option of the purchaser. An occasional increase in the discount is not practicable, because times and prices change and it is impossible afterwards to get down the

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discount to what it was originally. In those rural districts in which consumers' leagues and cooperative stores have not been introduced as yet, and where the retail merchants (who belong chiefly to the middle class) are consequently prosperous, it is the common custom of the storekeeper, who in ordinary times avails himself of the discount, to defer payment in times of stringency as far as he can in order that he may make the most of the money that comes in from his customers by using it for all manner of business transactions, as, for example, the buying up of farm produce. Now, if I am obliged, by the fact of my customer not paying me, to get my notes discounted at my bank to a large amount or to secure large loans on collateral, then the sums in question will figure in the statistical table under the head of manufactures. But the money is not there at all. Is this sum, which was required for the general need, to be charged to manufactures, in spite of my not having enlarged my factory in the least; or to the retail trade, to which my customer belongs; or to the banking business, because my customer thought perhaps that he would make the most of the opportunity by speculating on the exchange; or to agriculture, because the farmer either did not settle with my customer or else sold some commodities to him which, under less favorable conditions, would have remained unsold or disposed of somewhere in a less profitable way? And just as it is with me, so it is with every sort of manufacturing industry and business that is not enabled, by the formation of cartels or by the possession of some special advantage, to dictate strict terms of payment to its customers. That is what it all amounts to.

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Whether the banking fraternity has taken advantage of the stringency to make a profit at the expense of the public by exploiting its situation, I have not been able to determine from the results of the present investigation. It would have to show, however, on the balance sheets of the banks unless there were some very dexterous way of creating concealed surpluses.

This is at all events a reason for insisting in connection with Point VI on a minutely detailed balance sheet in the case of the large banks.

It would likewise have been interesting to ascertain whether in the case of certain very flourishing lines of industry—of course not in these times of stringency, but prior to them—capital was forced upon industrial undertakings, perhaps sometimes for the sake of merely transient profits; capital which, when the stringency came, was absent to the great detriment of the public.

But few facts, however, of a positive character have been elicited in regard to this matter by the present investigation. A member from Silesia has made a pregnant remark concerning the subject, albeit he does not believe in this kind of activity on the part of the banks. In particular, with reference to the competition among the banks, Herr Bernhard dwelt upon the efforts made to induce local governments to promote the electrical industry, the establishments engaged in which were criticised by one of the most prominent men in the banking world of Berlin.

The essential cause of the financial stringency is therefore to be found in the overstraining of the national frame;

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that is to say, domestic conditions have been at the bottom of the trouble. But, just as a person who has over-exerted himself can not use his strength to good purpose in the struggle against external forces, so our people have for the moment been unable to hold their ground against the outside world, and this is made manifest by the balance of payments.

The problem as to how gold can be got from abroad is closely bound up with the question as to how the credit side of our accounts with the world at large can be made to mount up.

If this is not so apparent in the case of France, the reason is that France has permanent demands upon foreign countries to a large amount and is consequently in a position to offset her obligations, if they happen to be very large, to a considerable extent by the interest which the outside world has to pay her.

We must, of course, bear in mind that even those countries whose economic position with respect to the world at large is unfavorable have managed in some way, in spite of this, to draw gold from abroad, although I doubt whether their efforts will be permanently successful unless they happen to strike every now and then a sudden streak of good fortune. A country like Russia can count upon such occurrences much more easily than our country, to which in the European concert there is no disposition to grant anything.

With reference to the matters which I have been discussing I must acknowledge my indebtedness to the

extremely interesting statements of Herr Fischel, as given on page 347.^a

In international trade—following Schaer in his “*Elemente der Zahlungsbilanz*,” Part IV of the “*Volkswirtschaftliche Blaetter*”—we must consider the most important factor in the interchange of commodities to be the exportation of manufactured articles.

There is no doubt in my mind that in this matter our manufacturers have in a measure pursued a short-sighted policy. The domestic demand has in a way been so great that the foreign customer has been neglected.

As a young man I traveled with textile goods in Brazil, where I had much to do with exchange, and I have a fair knowledge of the export business, so that I think I am justified in talking more at length about these matters because, as far as I can see, there are hardly any representatives of trade, pure and simple, in this commission.

This is not the first time that we have witnessed a period of severe internal strain. But there is a difference between the times we are having now and similar ones we have had before in that there is something which has prevented us from retaining or quickly recovering the foreign market. This is due to the circumstance that the German manufacturer is now much more intent than formerly—and in this respect the English and French, I believe, are still far behind him—on dealing directly with the foreign customer and emancipating himself from the German middleman in Hamburg, Berlin, and elsewhere.

^a Stenographic report of the whole commission, opinions of the experts with respect to Points III-V of the question sheet.

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To be sure, this has its advantages. Large concerns enjoying a monopoly, like Krupp or Beyer, are obliged, for obvious reasons, to carry on their foreign business directly. But when a small manufacturer, who has but an inconsiderable product to dispose of, seeks at a time of feeble domestic demand to deal directly, say, with South America, and then when there is again a stiff demand at home allows his foreign customer to be disappointed in the matter of delivery or of price (as a result perhaps of a combination in the textile industry), and if he should afterwards, when times are slack, try to restore his previous relations, he is pretty sure to find that it will not work. His customer some time ago imported foreign substitutes for the German's wares by way of Paris or London and, above all, Antwerp. Had the manufacturer in his original transactions been willing to allow the Hamburg commission merchant a middleman's commission, the latter would have been obliged to supply a substitute, or else he would have managed in some way to hold on to the customer, and, unlike the London or Paris commission merchant, he would only have been consulting his own interests in turning again at the first occasion to the German manufacturer.

The fact is that the export commission merchant retains his hold on the foreign customer by means of a great variety of articles, the manufacturer by means of a single one. The former can at times offer him inducements by purchasing wares from him for importation, but above all he can offer him credit, a pretty sure way of strengthening one's grip upon a customer. The money which is invested

by Hamburg commission men in Mexico, Guatemala, Chile, and elsewhere, not in the way of working capital, but (with great reluctance) in the form of fixed capital, must amount to a pretty big sum.

The export commission men, as a whole—the exchange for our exportable manufactures, if I may use the expression—have not kept pace with the ever-increasing efficiency of our manufacturers. If they can offer for sale only articles for which there is no special demand, they are bound to drop behind as purveyors. Salable wares bring unsalable ones in their train. If the former are not in evidence, then the export of all those manufactures for which there is no vigorous demand will drop away, and this is, of course, bound to show in the balance of payments.

There is another unfavorable side to the movement to get along without the aid of the commission man in its relation to the balance of payments. The export commission merchant, who has connections in London and Paris so close as to be almost equivalent to the command of branch offices, can in times of financial stringency draw upon foreign credit, whereas the small manufacturer is unable to do anything of the sort.

Whether the foreign banks have promoted the tendency of our manufacturing industries to deal directly with the outside world, I am not in a position to affirm. I am not inclined, for my part, to question their services in connection with the export business.

The stringency of the money market has, as a matter of course, increased the difficulties of the manufacturer who

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caters to the foreign trade. The profit which he derives from the rate of exchange, amounting at present to 2.8 per cent, cuts but a small figure in his business.

I can enumerate various things that hamper our export business, such as the commercial treaties; the fact that certain combinations, or trusts, have not yet learned how to accommodate themselves quickly when times are slack to the needs of the export business in their offerings of raw material and half-finished products; furthermore, the high wages (a great blessing when viewed by themselves), together with various social maladjustments; but above all, the rapid development of manufacturing industry in the countries which were formerly our customers, the unfavorable financial conditions existing in these very countries, and the shrewd and inconsiderate policy which England has been pursuing at our expense.

It is difficult to form a judgment regarding our export business and its prospects from the statistics before us. The soundness of our inferences is rendered questionable inasmuch as the figures frequently refer to weights, and in our method of tabulation the entries under the head of imports and exports, respectively, are not made to balance.

I have learned much regarding these matters from the statements of Kommerzienrat Marwitz (p. 45)^a who, among other things, spoke of the great loss that Germany had sustained from the fall in the prices of raw materials.

After duly weighing the situation, I believe I am justified in expressing the fear that we can only count on a rather slender extension of our export business, to the detriment of our balance of payments.

^a Stenographic report of the whole commission; opinions of the experts with respect to Points III-V of the question sheet.

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But I see I have already taken up too much of your time and so I shall refrain from following Schaer any further in what he says concerning imports, freight charges in international transactions, travel and emigration, and the safety valve of the balance of payments.

More importance should, in my opinion, be attached to the matter of investments in foreign corporations, those in the United States, for example. If, on account of a financial depression, the stocks find no sale in the market, we are obliged, just when it is most inconvenient, to carry a lot of foreign securities. Our investigation has, however, thrown no light upon this subject.

The taking up of foreign loans facilitates the winning of markets for our great manufacturing industries. But in this matter our banks should be careful not to overstep the limits so as to affect injuriously our balance of payments, even in cases where the policy of the Government is not altogether in accord with them. The tying up of capital in foreign long-term credits is certainly a mistake if we are so situated that we may at any time be obliged to have recourse to short-term credits abroad.

I desire right at this point to express my dissent from the proposition advanced by Doctor Roesicke (p. 424)^a to the effect that under an unfavorable balance of trade foreign loans should be "ruled out on principle," although I believe we shall do well to consider the suggestion that the operations of the credit banks be subjected in some measure to the supervision of the Reichsbank, whose control, however, should not be permitted to extend to the point of driving German capital to the foreign exchanges.

^aStenographic report of the whole commission; opinions of the experts with respect to Points III-V of the question sheet.

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If the essential postulate of every discount policy, in our sense of the term, is the existence of available foreign credits, then our foreign liabilities, at a time of stringency, are apt to become very embarrassing to us in case some country should attempt to draw out our gold by every means at its command. On this account it is pre-eminently desirable, however welcome the investment of foreign capital in Germany may be to us, that these investments should be such that the money can not be easily withdrawn.

I do not believe that any substantial change in the discount policy of the Reichsbank with reference to the outside world, apart from the utilization of a large mass of foreign exchange, can be effected.

The raising of the rate of discount, just as has been done hitherto, should not be resorted to except in cases of necessity, because it makes money dearer for our manufacturers and other business men.

I am not willing to admit that the regulation of the importation of gold has nothing to do with the balance of payments. The effect of a rise in the rate of discount under an unfavorable balance of payments can not possibly be anything but temporary.

It particularly fails to have any effect under such circumstances at a time when financial stringency and lack of confidence prevail abroad.

The free operation of the discount policy with reference to the outside world is obstructed because the rate of discount depends also upon the domestic money market. According to Geheimrat Von Lumm it is only

in six cases out of twenty-six that the raising of the rate of discount was not dependent upon the domestic situation. The connection between the discount policy and the rate of exchange has been very clearly set forth by Schaer.

A further difficulty consists in the dependence of the discount policy upon the private rate of discount. I shall revert to this point presently.

The effect of the rise in the rate of discount is shown in the fresh credits which we are accorded abroad.

The causes of an outflow of gold are a temporary unfavorable showing in the balance of payments and a sudden great demand on the part of the outside world, as was the case last with the United States.

The means of checking such an outflow, apart from the adjustment of the rate of discount, are—as, among others, Herr Loewenherz has suggested—the calling in of credits abroad, the issue of treasury bills, and the presentation of coupons for payment in foreign countries.

The effect in this direction of a rise in the rate of discount is visible in the greater eagerness of foreign countries to draw bills of exchange upon Germany and in the fact that bills of exchange drawn on Germany do not return abroad.

But even this effect can not be relied upon when there is an unfavorable balance of payments, at least not as a permanent result, or (assuming such a condition to exist) in case of a financial crisis abroad.

In the course of this investigation the subject of the difference between the discount rate of the Reichsbank

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and that of the private banks has been discussed. The figures adduced with reference to this by Kommerzienrat Rinkel I have found very interesting. The difference between the official rate and the private rate seems to me too great. To the Reichsbank it must be very embarrassing to be under tutelage in this matter to the extent of not being permitted, in case the official rate of discount is 4 per cent or over, to discount at a lower rate. The reasons for such a provision have been put before us. But since the adoption of this provision the status of the private banks relatively to the Reichsbank has altered very materially. In my opinion we ought to rely upon the desire of the Reichsbank, and indeed all the banks of issue, to consult the public welfare on every occasion, and let them have a free hand in the matter of going below the official rate of discount or at least give them the benefit of less rigorous requirements.

That the great banks, in the adjustment of their rate of discount, have intentionally run counter to the aims of the Reichsbank seems to me out of the question. Conditions, however, are sometimes more potent than men. I can hardly conceive that this great difference between the private rate and the Reichsbank rate has not at times interfered with the carrying out of the policies of the Reichsbank. A too low-priced competitor is always inconvenient, and the Reichsbank and the big private banks are, after all, competitors.

If it can be asserted that the discounting by private banks is a great benefit to many persons, it is about all that can be said. The mass of the people, the so-called middle class, derives no benefit, at least no direct benefit

from it, neither does manufacturing industry, unless in very exceptional cases, such as where the biggest concerns take advantage of it.

The amount of money which is actually available for the purposes of private discount at a time of stringency is always very limited. A natural result is that preference is given to customers whose patronage is especially desired, which is as much as to say, to those having the largest capital, as well as to large industrial concerns, in which the bank has perhaps an interest.

This is, to be sure, a privilege of the banks, but it is only the very large ones that can make gains out of this private discounting, and if the small banks are obliged to pay for their money 1 per cent higher than the rate of discount of the Reichsbank—I have never heard of a banker asking only 1 per cent above the private rate of discount in current accounts, although there is nothing to prevent his doing it—the result will be that the large banks are strengthened and the small ones weakened, which is not altogether in the interest of the public, however advantageous it may be for us to have a number of great banks in order to insure our financial position with respect to the world.

What is needed to diminish the difference between the official and private discount rates is the carrying out of the plan that the Reichsbank has proposed to itself—a very desirable consummation—of not allowing prime bills to go to the other banks.

Having spoken so much at length, I think I had better let some of the other members have the privilege of the floor.

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Doctor WACHLER. The stress in the money market, which began in 1905 and which in 1907, owing to the occurrences in the United States, developed into a severe financial crisis, leading in England and Germany to the abnormally high discount rates of 7 and 7½ per cent, respectively, has affected us so seriously that we ought to consider whether unhealthy processes have not developed in our economic fabric and what measures may be necessary, especially with respect to the conduct of the Reichsbank, in order to guard against a recurrence of such conditions in the future. Although the strain of the money market in the spring of 1908, at the time the present investigation was started, had lessened materially and we began to indulge in hopes of a return to normal conditions, the particular need was impressed upon the members of the investigating commission of inquiring into the nature of the symptoms that seemed to point especially to an unhealthy development of our economic state, with the view of determining what means would be likely to restore sound conditions and avert a similar situation in the future.

I can not for a moment admit that the present money stringency has had as its wanton and unnecessary causes the unhealthy development of our industries and the consequent excessive demand for credit to meet the needs of investment, or the inordinate speculation of banks and capitalists in mining or other foreign securities and the great loss of capital incident thereto, or even the issue of bank notes by the large banks for the purchase of foreign securities, especially industrial securities, and,

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in particular, those representing electrical developments and transportation interests—operations which just in that critical year 1907 occasioned an outflow of gold from Germany to foreign countries—and therefore I am not prepared to admit that it is incumbent upon the lawmaking power to guard against the return of just such economic occurrences regarded as prejudicial to the public welfare and in particular to have recourse ultimately to a change in the organization of the Reichsbank. We know that there have been monetary crises within the last sixty years over and over again in various countries, and it must be recognized that in the case of some of these there have been peculiar underlying causes, such, for example, as the Suez Canal and the Bontoux affair, in the case of France. The fact remains, however, that precisely the crisis of the years 1907 and 1908 can not be attributed to any particular economic occurrences, but that its causes have been bound up with the ordinary and natural development of our economic condition.

We must remember that since the year 1901 more especially Germany has had an extraordinary economic development. Not only has its population been growing at the rate of nearly 900,000 annually, but its natural products, especially coal and iron, have increased at an enormous rate, while at the same time its foreign trade has made immense strides, not to speak of the coastwise trade. Between 1901 and 1907 the total foreign trade increased from 9,500,000,000 marks to nearly 15,500,000,000 marks, or more than 60 per cent, and, what is especially significant, the excess of imports over exports almost doubled in that period. In

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1901 the excess of imports amounted to 953,000,000 marks, in 1907 to 1,728,000,000 marks. It is possible that the demand for capital in the case of certain industries in the last three years may have had its share in the tension of the money market, and there has doubtless been a heavy outflow of gold from Germany to foreign countries, and especially to the United States in the years 1906 and 1907, but this has mainly taken place as a result of the demand for raw materials needed in our industries, chief among the imports being copper, various ores, cotton, and food products, which, as it happened, had greatly advanced in price. Of course there must have been some losses in speculation, but these can not possibly have occasioned any further considerable outflow of gold in the past two years. They have been in part due, indeed, to the futile attempt to regulate the stock exchange by legislation. It would be altogether wrong to charge the great banks with having overdone the business of the flotation of foreign securities to the detriment of our domestic interests or with having unduly promoted the investment of domestic capital in foreign industrial enterprises because, for one reason, these investments were, almost without exception, initiated and consummated years ago, and, furthermore—apart from the circumstance of their having been probably stimulated by the commercial treaties that were harming a number of our industries—because they were in a way a benefit to German industry by affording better opportunities for the export of its products and secured a permanent revenue from foreign sources, which helped to make the balance of payments more favorable to us.

It has been admitted by the experts, with scarcely an exception, that the stringency in the money market is not due to any particularly unhealthy activity in any part of the industrial field in Germany, and that, as a result of the extraordinary development of international trade and international financial relations, Germany, in its monetary situation, and the Reichsbank, in the matter of discount, can not help being affected to some extent by the happenings in the money markets of London and New York. It would be a mistake, however, to draw any general conclusions from the exceptional conditions that have developed as a result of what took place in the United States in 1907. It is interesting to observe that Doctor Arendt himself, after reasoning out the matter most thoroughly, has asserted in emphatic terms that the precarious state of our money market in 1907 was nothing more than a transitory phenomenon and that the situation, when the business world had come to accommodate itself to it, would soon be once more a normal one, so that legislative interference would be altogether superfluous, the remedy for the existing abuses being at hand in the powers which the Reichsbank was allowed to exercise. We must acknowledge that a surprisingly brief time has sufficed to establish the soundness of this view, as evinced by the actual development and present state of our money market.

Our economic activities having thus been restored to their normal state and the financial stringency having been overcome without any radical changes in the organization or the policy of the Reichsbank, we have a right

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to conclude, with reference to either of these phases of the situation, that there is no reason for undertaking any far-reaching innovation, and in particular that the Reichsbank, in its existing organization, has stood the test thoroughly and has shown that even in a time of crisis it is fully able to discharge the duties allotted to it.

Having made these preliminary remarks, I shall take up question III of the question sheet, regarding the augmentation and preservation of the gold supply in the country, and more especially in the Reichsbank. But first of all I wish to say that I do not consider it necessary or helpful to our discussion to repeat here in detail the many arguments set forth so thoroughly in the hearings of the experts, and that it is my purpose to do no more than express my opinion broadly as being favorable to the one side or the other, reference being had especially to the arguments advanced in the course of this discussion.

Question III deals with the importation of gold from foreign countries. In this connection the metal is to be considered more especially in its quality of a commodity, but also in its capacity as coined money. The question is in what way it can be brought to Germany and kept there, and specifically in how far the Reichsbank is in a position to further its importation and to hinder its speedy outflow. I believe that an inflow of gold can, in the natural order of things, depend only upon the total value of the commodities which the world is willing to purchase from Germany and the amount of money otherwise due to her in foreign countries, and for which she can demand gold; and it is most likely to take place when the

balance of trade is itself favorable. Unfortunately, the balance of trade, even if the statistics regarding it are defective in some important respects and do not give an altogether reliable view of it, has in the last twenty years been decidedly unfavorable inasmuch as the imports of merchandise, as far as the reports have shown, have been regularly in excess of the exports. In the last few years the excess of imports has averaged between 1,500,000,000 and 1,750,000,000 marks. We must not infer from this, however, that Germany is what we should call a debtor State, for when we leave the field of exchange of commodities and go further into international business relations we find that commerce and navigation have made the outside world our debtors on account of immense services, and that large sums come to Germany in the way of interest on capital invested in foreign countries, so that, as the exchanges have shown, with the exception of the year 1907, the balance of payments has been regularly favorable to Germany.

The state of the balance of payments determines practically whether gold is to flow into the country or out of it. Now, the Reichsbank can not make the balance of payments very different from what it is. In case of an unfavorable balance, it would not be able to bring about an importation of gold that would last very long, and all it could do would be to cause sums of money to come from abroad in the shape of loans by putting up the rate of discount on the theory that capital seeks the place where it can expect the biggest returns. As, however, this business of loaning is bound after a certain time to seek its level, the result

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is that even the most strenuous discount policy can not permanently bring gold into the country and keep it there in the face of an unfavorable balance of payments. If, therefore, the importation of gold from abroad is the expression of a sound economic situation, coupled with a favorable balance of payments, the Reichsbank has nevertheless various means at its command of encouraging such importation. I should designate these means as either banking (discount policy, foreign exchange business, gold-premium policy) or mercantile (removal of the seigniorage, advances without interest, latitude in fixing the price of gold, or, in other words, a variable price of gold).

All the experts have agreed that the discount policy and the buying of foreign exchange are very effective means of attracting gold to the country and, in any case, of hindering or obstructing the outflow of gold. But they have at the same time warned us against the danger of putting on the screws too tight in this matter of the rate of discount, as such an operation would entail a heavy burden on our whole industrial system. We must remember, besides, that under certain conditions, when a country is badly in need of gold or currency, as was the case with the United States in 1907, it is found impossible to arrest the outflow of gold by means of the agencies afforded by a movable rate of discount. It is likewise the general opinion that the Reichsbank should have an adequate stock of foreign bills of exchange, but extreme caution in the conduct of the foreign-exchange business is insisted upon.

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While all sorts of suggestions have been made regarding the policy to be pursued with respect to the adjustment of the rate of discount and regarding the foreign-exchange business, it is universally acknowledged that the Reichsbank has managed its affairs with the requisite skill and in the right way, and it would be superfluous for me to go into any details, which would be merely repeating what the various experts have stated so fully. It will be sufficient if I do nothing more than express my concurrence with the statements and opinions embodied in the stenographic reports and my conviction that the management of the Reichsbank has all along been proper in every way, so that we may feel confident that the business of discount and that of exchange will continue to be carried on in the right way and in the interest of the public. There is only one thing I have still to say, and that is that there has been a diversity of opinion among the experts as to the manner in which the foreign exchange ought to figure in the bank's statement. It is agreed that the stock of foreign bills should not figure as a separate item, as this would make it more difficult for the bank to exercise its influence in regulating the rate of exchange. This view is entirely correct. On the other hand, I should not consider it proper to include them in the item of gold in the possession of the bank. They will have to figure in the accounting in the same way as the checks or other short-time drafts bought up by the bank, even if in consequence the bank should, on the face of it, derive no benefit from its foreign-exchange business in the matter of its covering its liabilities. It

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will have to be content to be enabled, in the way open to it, to influence the rate of exchange in a manner beneficial to the economic interests of Germany.

With respect to the scheme of putting a premium on gold, all were agreed that recourse can be had to it effectually only in a country in which the state bank is not obliged to redeem its bank notes in gold, that it can not affect the importation of gold and can at best merely render the exportation of gold less easy, and that even in the case of France it has but very rarely been adopted, and when tried, it has been in such a way that the bank, which is not bound to make payment in gold and which is in the habit of paying out old and well-worn coins, demanded a premium (up to $\frac{8}{10}$ of 1 per cent) if anyone asked for full-weight coins, a privilege which has not been exercised since 1891. The imposition of a premium on gold ought not to be urged in this country, for as its advocates themselves admit, such a measure could not lead to any important results. All that should be attempted with it is to protect the money market against certain illegitimate proceedings of the arbitrage business. We have to reckon with the fact, however, that with us any premium on gold would be accounted a disagio, and would therefore be impossible unless Article IX of the monetary regulations were repealed. But such a repeal would mean the abolishment of the gold standard, and this can not, of course, be considered for a moment.

The importation of gold, considered in the light of a trade in commodities, will be determined mainly by the price which the commodity will fetch. It is urged with

reason that the Reichsbank be allowed a somewhat freer hand in fixing the price. The propositions respecting the making of advances without interest, even for pretty long terms in future, and the abolition of the seigniorage amount virtually to enabling the Reichsbank to institute a variable valuation of gold. It is not worth my while to rehearse the reasons for the recommendation that the Reichsbank should in future adjust its valuation of gold somewhat more in the interest of the importer, and I will merely say that I consider them to the point.

In line with what I have discussed is the suggestion to labor for the creation of a gold market in Germany and ultimately in Berlin itself. The way to do this would be to empower the Reichsbank to make public declaration that it is ready, without charging the full amount of the seigniorage, to pay somewhat more than 1,392 marks for fine gold, so that everyone may know in advance that he can dispose of his commodity here at that price. It would also greatly promote the end in view to have recourse to such measures as will induce the producers of gold to ship the metal direct to this country, as, for example, the establishment of a gold refinery and the like. There is no doubt that it would be of the greatest advantage if we could have a gold market here, which, in a regular and natural way, would attract to Germany a portion of the gold product that now goes almost exclusively to London, so as to make it well-nigh impossible to procure the metal in any other manner than by way of London. Doctor Arendt, too, thinks that we ought to adopt every means that will promote the establishment of a regular gold

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mart in Berlin, although he does not appear confident that it is practicable. The difficulties in the way of such a scheme were thoroughly discussed in the hearings of the experts on May 13, 1908. Whether they can be overcome, the imperial authorities, after due inquiry and weighing of the facts, can best determine. Meanwhile it is intimated to the Reichsbank on every hand that it might do well to lose sight to a certain extent of the purely mercantile standpoint in its purchases of gold, and not to be afraid to make an occasional sacrifice in order to increase its stock of gold as much as possible and to create the conditions which would enable it to secure for the Empire a stable and not too high rate of discount. The Reichsbank is in a position to do this now without any change in the law if, pursuant to Article XII, section 3, of the coinage regulations, the seigniorage, hitherto limited to a maximum of seven marks per pound, were reduced by the Imperial Chancellor to a nominal rate.

That the Reichsbank is in reality in a position to draw gold to itself without any change in the law under the present conditions has been made apparent by the evidence furnished in the past few weeks concerning the stock of gold in the Reichsbank. The discussions of the experts have likewise shown that the Reichsbank has at the same time been catering in a most obliging manner to the needs of the industries that make use of gold. I insisted at the time that it would be of great advantage if the Reichsbank, without incurring too great a sacrifice, would accommodate our manufacturing industry in this way. At the same time, however, I stated my position to be that I could by

no means admit that it is the duty of the Reichsbank to look after the supply of gold for our industries, inasmuch as the acceptance of such a proposition would entail very serious consequences with respect to the duty of the Reichsbank in various other directions. I will say, however, that I should under no circumstances advocate such a measure as the one suggested by the first speaker, which would have the direct effect of making it more difficult for our gold industries to obtain their supplies of the metal. We are all aware that the gold industry, which has been using nearly one hundred millions of gold, unfortunately to some extent in the shape of coin, has been extremely profitable, especially in the case of Pforzheim and the neighboring places, which are engaged in this industry. And, in particular, I want to remind you of what Herr Dietz, if I am not mistaken, was telling us about the refining business, to the effect that a large part of the gold that is produced in Russia and which is not used there for coinage purposes comes to our refineries, which refine it and then let it go back to Russia. This is such an important branch of industry, one which is of so much benefit to our whole industrial system, that I can not at all agree with those who are so positively bent on making it difficult for our industries to obtain their supplies of gold, even if they are driven to melt down gold coins. When you get to the last word, what is coin but a material for this industry? I can not conceive what reason there can be for throwing obstacles in the way of a manufacturing industry that is seeking to obtain its supply of raw material. It may, indeed, be a matter

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of regret that industry is taking coined gold for its purposes, but the moment that gold leaves the mint the Reichsbank, in my opinion, ceases altogether to have any control over it. It would be a perilous thing, in my opinion, to make any laws regarding the use of our coins, apart from the fact that it would hardly be possible to regulate the operation of such laws or, indeed, to enforce them at all.

The outflow of gold, as a rule, is determined by the state of the balance of payments. The movement of gold is not brought about in an arbitrary manner by operations in money changing, but it is the result of the conditions shown in the balance of payments and of the state of the international gold market. A resort to artificial means, therefore, as a general thing, can do but little toward counteracting such an outflow. The putting up of the rate of discount will, it is true, have the effect of preventing gold that is drawing a high rate of interest from leaving the country, and the Reichsbank, if it has a large stock of foreign bills of exchange, can, by negotiating them, likewise diminish the outflow of gold. But neither of these means is anything more than a subordinate one, and they can not arrest the natural movement of gold, conditioned by the state of the international gold market and the balance of payments. They are capable merely of affecting it temporarily.

As regards the gold-premium policy, such premium being defined by Landesberger and Helfferich as a "variable compensation which the Bank of France exacts for redeeming its obligations in gold coins or bars instead of in

current silver, which is the same thing as granting its credits in gold," such a proposition, as I have said before, can not be adopted without a previous change in the monetary regulations, and tending, as it would, to abolish the gold standard, ought not to be entertained for a moment in a country carrying on a large foreign trade.

This is all I have to say with reference to question III.

The CHAIRMAN. I think it will be of interest to you, gentlemen, and valuable for the purposes of this discussion, if I supplement the information which I have submitted to you with some statistical figures embodying the later returns of the gold and exchange transactions of the Reichsbank in the present year. The directors of the Reichsbank, as you have already learned in the course of these debates, are convinced that it is of the utmost importance to the whole commercial and industrial system of Germany, as well as to our monetary standard and banking institutions, that the stock of gold in the Reichsbank be increased and our supply of gold be kept, if possible, permanently at a considerably higher level in order that we may be able to face such extremely trying and abnormal times as we have just had without having to fear for the security of our bank-note circulation. But we are not able, as Doctor Ströll has pointed out, to conjure up gold bars and foreign acceptances from the ground. All we can do is to make the best of the situation. And this, gentlemen, we ought to do with consistency and circumspection. I do not believe that gold has invariably to be paid in gold. It

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is only the net debit of our balance of payments that has to be settled in actual gold, there being no other way of effecting such settlement. I am thoroughly convinced—and this applies especially to a time when there is a favorable international balance, such as we shall apparently have this year—that gold is nothing different from any other commodity, say coffee, cotton, or copper [Exactly so!], which we are not obliged to pay for in gold pure and simple, but for which we can settle in paper, as the first instrument at hand. The Reichsbank will have to avail itself of this period of a favorable balance of payments and the conditions resulting therefrom—and it will have to do this in the future as well as now—to increase its gold supply, to lay aside a gold reserve, and to supplement its discounting activities by energetic exchange operations.

I wish to submit to you the following returns for the current year:

The gold importations into Germany up to date amount in round numbers to 291,000,000 marks, and the gold exports to 37,000,000 marks, the excess of imports being therefore 254,000,000 marks. Of the imports the Reichsbank bought up 283,000,000 marks, and of the exports 3,000,000 marks was supplied by the bank, so that the Reichsbank had an excess of 280,000,000 marks—a sum larger than the excess of gold importations—flow into its treasury. The stock of foreign bills of exchange amounts at present to 126,000,000 marks. To this must be added the sums growing out of foreign bills, which we have

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allowed to stand to our credit abroad, amounting to somewhat more than 50,000,000 marks, so that the sum of the foreign bills and the foreign credits amounts at present to 176,000,000 marks. If we add this to the 280,000,000 marks of actual gold, we shall have as the total of what the bank has laid aside in gold and reserves convertible into gold the sum of 456,000,000 marks. The sum of the foreign bills and credits amounts at the present time to 19 per cent of the total of the domestic bills.

Freiherr VON GAMP-MASSAUNEN. Director Ströll was right in saying that there is no sense in constantly speaking with reference to France and setting up France as a model, as the situation there is altogether different from our own. I would go still further and say that there is no use in always referring to the status and workings of the Bank of England as something that should serve as a pattern to us. Everyone will admit that in that country also conditions are essentially different from what they are with us. It was shown in the course of the discussions of the experts that England and Germany—I mean to say the Bank of England and the Reichsbank—are alone in the habit of freely furnishing supplies of gold to the outside world. A few of the experts and some of the members of this commission were inclined to doubt this. There were one or two small countries which were credited with sending abroad every now and then gold to the amount of a couple of million marks. All in all, however, it is true that it is only these two banks that freely supply gold to foreign countries. Now, the position of the English bank with respect to England is very different from that of the Ger-

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man bank with respect to Germany. In the first place, the Reichsbank is obliged to minister to a very large extent to the permanent needs of the Imperial Government, and thus has to devote a great part of its resources to meeting the demands of the Government in the matter of credit. I am not expressing any opinion as to whether this is as it should be or not. All I wish to say is that the Reichsbank is compelled to come to the aid of the Imperial Government in case of necessity, and no one will deny that in consequence the ability of the bank to serve the needs of the country is very much curtailed.

There are two factors, besides, that combine to render the position of our Reichsbank unfavorable in comparison with the English bank. The Bank of England in times of need has always the Bank of France at its disposal. France has repeatedly placed many millions at the disposition of England when money was scarce there. Would the Reichsbank be anxious to turn to France and ask for financial aid? I hardly think it would.

Then you must remember, gentlemen—and this I regard as the most important factor—England is at all times able, even when the quantity in the bank is at a minimum, to obtain its supply of gold, be it at a financial sacrifice, from all the countries of the globe, as England is a large holder of the securities of every Government. If England should be hard up to-day and should send, say, 50,000,000 in Prussian consols to Berlin, the 50,000,000 would have to be paid down in gold on the spot, and the gold would immediately be on its way to England. If England should offer to sell in France or in Russia the

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securities of those countries which she has in her possession, the gold would have to be delivered up without further ado. We are not situated thus. Germany is only on a small scale the holder of foreign government securities that are readily convertible into cash. We are not the possessors of large amounts of British consols or of French rentes, and simply for the reason that we are not satisfied with the interest afforded by these securities. As a matter of fact, in the past few years, as far as my observations go, the holdings of foreign securities in Germany have diminished considerably. Germany was formerly in the habit of investing her superfluous capital, if I may so express it, on a safe second mortgage; that is to say, she preferred to buy up the securities of countries, which, while their credit was not quite up to the level of that of Germany, were regarded on the whole as absolutely safe in the matter of their obligations. I include among these securities Austrian, Hungarian, and Italian rentes, Russian and Roumanian securities, and the like. Some of our experts have stated that Germany, partly as a result of the financial depression of 1907, has got rid of its stock of these foreign obligations, which in the meanwhile had advanced to the position of first-class securities. In place of them we have got hold of a flood of American securities. I am very sorry for this, and I personally believe that the banks which have had a hand in this have not done any particular service to the national welfare or the German Empire. We have thereby placed ourselves in a position of absolute dependence upon the American market, which was formerly not the case. Among these

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securities there may possibly be some fairly safe ones, but who can tell, gentlemen, whether these first and second mortgage bonds of any sort of a railroad offer even a moderate degree of security? The newspapers in the United States are loud in their warnings. It is asserted in well-informed circles that a thousand million dollars will hardly suffice to develop the American railway system and bring it up to a state of efficiency. As a result of the introduction of these American securities, we find ourselves to-day in a very uncomfortable position. When securities of any kind are admitted to our exchange the amounts are to be accurately specified, a regulation which is enforced in the case of all domestic securities. In the case of mortgage debentures (*Pfandbriefe*), indeed, this regulation has been repealed in the new exchange code, but previous to the institution of this code whenever the district loan associations (*Landschaften*) proceeded to a fresh issue of mortgage debentures, amounting to, say, 100,000,000 marks, then the operations in these obligations were to be confined to just 100,000,000 marks. But if American securities happened to be sent over at this moment to the amount of \$20,000,000 or \$30,000,000, it is not only these \$20,000,000 or \$30,000,000—as I am told by a member of the Berlin exchange—that obtain the privilege of entering into stock exchange transactions in this country, but securities of the same kind to the amount of \$400,000,000 or \$500,000,000, or even \$600,000,000, are admitted to this privilege and can at any moment be thrown upon the market. This makes an immense difference in the situation.

When Director Ströll asserted that the improvement of the balance of payments was merely a matter of international labor, he overlooked the effect produced by the influx of foreign securities. This destroys the logic of the proposition, which otherwise would be a sound one, that it is through productive labor alone that the balance of trade and the balance of payments can be altered. But if foreign securities to the amount of one or two hundred millions land in the country, then our balance of payments is at once affected unfavorably. Our foreign indebtedness is increased by one hundred or two hundred millions, and this sum has to be paid abroad in gold.

As for Herr Wachler's declaration that he does not consider it wrong, but, on the contrary, thinks it is right, that our large banking houses should not stand aloof in the matter of foreign securities—asserting that this is a duty which they owe to the German Bourse, to the position of Germany as a world power, and the like, and arguing, furthermore, that these securities often represent issues made in the past—I must say that his view, as a whole, does not appeal to me. I owe thanks to the president of the Reichsbank for having, at my suggestion, placed before us a table giving the statistics of the securities placed upon the German market in the years 1900–1907. I find that in the year 1905—that is to say, at a time when we were on the eve of a serious financial crisis and when cautious and far-seeing financiers foresaw that such a crisis was impending and would be an acute one—foreign securities amounting to no less a sum than 1,108,000,000 marks were brought to the German market. I am sure that this mass

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of securities had an important share in rendering the balance of payments unfavorable to us not only in 1905, but also in the succeeding years, for the obligations thus incurred had to be liquidated by payments made in foreign countries in that year and the years following. If this had not necessarily to be done in every case by means of gold payments, the fact still remains that in those years our balance of payments was unfavorably affected to the extent of more than 1,100,000,000 marks, for the reason that we had suddenly become debtors to the outside world to that amount. Furthermore, in 1906 foreign securities came to Germany to the amount of 220,000,000 marks, and in 1907, 152,000,000 marks more was added. Such figures ought to make us think and bring up the question—a question I have elsewhere propounded—of the desirability of enabling some civil authority in the Empire to deal with the banks in a time of serious financial stringency and to make them understand that on such occasions regard must first be had for the domestic needs of the country. If the banks at such times do not deem it necessary in the interest of the public to lay up reserves, then there is nothing left, I regret to say, but to compel them to do so. I am of opinion that the question ought to be considered whether some civil authority—I am thinking, first of all, of the Reichsbank, although I am sure the Reichsbank would not relish such a mandate, as it is anxious to be always on good terms with the great banks—should not be intrusted with the power to intervene in this matter for the benefit of the public.

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Doctor RIESSER. And suppose the Reichsbank were to say "Yes"?

Freiherr VON GAMP-MASSAUNEN. In that case it would assume a responsibility, and if the Reichsbank says "Yes" over and over again, and the course of events should not justify its position, then, I take it, the Imperial Chancellor will have to draw his own inferences. [Laughter and applause.]

I can tell you, Herr Mommsen, there is not a person who has so little faith in the Reichsbank. Between 1905 and 1907 the president of the Reichsbank would probably have said "No;" and the present head of the Reichsbank would have said "No."

Gentlemen, the question has frequently been discussed, and it is an important one: How large is the quantity of gold actually in the possession of Germany? Some of the members, those who rather dislike to hear an unfavorable opinion expressed regarding the affairs of Germany, have made a computation something like this: Altogether there have been coined in Germany so and so many 20-mark and 10-mark pieces; so and so much gold has been imported according to the statistics; so and so much has been exported; consequently Germany must have in the neighborhood of 4,400,000,000 marks in gold. Director Ströll has called our attention to an important point, one which I was myself anxious to see discussed (I made a motion to that effect), and that is, the melting down of our gold coins for the purposes of our manufacturing industry. There are two other factors that have to be discounted in calculating our stock of gold. In the first

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place, we must estimate the amount, not given in the statistics, that is carried out of the country by travelers and tourists, and secondly, the amount (a much larger one) which goes abroad in the pockets of our foreign laborers. Assuming that each of the 300,000 laborers from foreign countries takes with him on an average the sum of 100 marks every year, we shall have the sum of 30,000,000 marks which in this way slips out of the country annually, unnoticed in the statistical tables. It is evident, therefore, that we have got to go about this calculation of our gold supply more conscientiously. Are we to go on forever groping about and trying to hide the truth from ourselves? Some of our experts have been going about it in such a way as to make one fancy that they rather preferred not to have an actual count for fear of an unfavorable result. Herr Arendt expressed this apprehension quite boldly. He declared that we had better not have a census unless we were prepared for an outcome that would throw us all into consternation. I think, gentlemen, that we might as well face the truth. There is no use in our going on persuading ourselves that we have got 4,400,000,000 marks in gold. Director Ströll has let us know that this does not tally at all with the estimate to which he has been led by the facts revealed in the inquiry.

Director STRÖLL. Only as regards the use of gold in industry.

Freiherr VON GAMP-MASSAUNEN. I suppose, then, that you had already taken into account the sums carried off by laborers.

(Interruption by Director Ströll.)

Well, these are matters of opinion. I am of the opinion that there is not a pfennig in the way of a credit item to offset this debit representing the export of gold through the agency of foreign laborers, because we are not sending out any laborers to earn money for us abroad. Moreover, out of the hundreds of thousands who have emigrated in the course of the past decades, no more than a few thousand have returned in recent years. The number likewise of those who have come back to Germany on account of the Russian troubles is very small. I believe that the East Prussian Colonization Bank has succeeded in colonizing just a few hundred in East Prussia. Of course, no one will pretend that the return of Germans to their fatherland can result in an importation of gold that will begin to offset the outflow of which I have been speaking. I am of opinion, therefore, that the vague estimate of many millions a year on account of emigrants and foreign laborers is altogether inadequate.

Now, I wish to ask you, gentlemen, Does a census of the gold in Germany really present such insuperable obstacles? To begin with, statistics might be had of the gold in private banks, in the hands of bankers, and in the treasuries of the various public institutions, loan associations, etc.

Director STRÖLL. That is the very thing that is being done.

Freiherr VON GAMP-MASSAUNEN. I can assure our esteemed director that it is not being done, or else it is done in a desultory way, not simultaneously with all the various funds, the postal treasuries, revenue funds, etc. But I say again, What is to prevent a regular census of the gold

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supply being taken in a perfectly businesslike manner? Of course, in the event of such a census, a few venerable housewives will be found who have perhaps a couple of 20-mark pieces safely stowed away in an old stocking and who will not rush straightway to the census taker with the information. But I perceive that Herr Fischel has started taking a census already [laughter], and I shall be but too glad to let him peep into my purse. There isn't one of us, I am sure, who is afraid to make correct returns to the census taker. I am under the impression—and I believe this is a pretty common notion—that the Reichsbank itself is not particularly anxious to have a census taken, and that the banking world in general is not very eager for one, by reason of the dread of having the naked truth sprung upon them.

I have still a few words to say regarding the consumption of gold in the manufacturing industries. Director Ströll was kind enough, indeed, to restrict the sense of the expression "Moloch of Industry," but he would keep the meaning intact in relation to the manufacture of gold articles. He is even willing to go so far as to impose legal penalties upon anyone who dares to do away with a gold coin in order to gratify his personal interests. In that case I should be one of those subject to the penalty, for my ring is composed of bits of gold, to which a personal interest in regard to our family attaches. I regard the use of gold in manufacturing industries as something to which we have no right to object as long as the Reichsbank declines to come to their assistance by supplying them with the ingots for which they have all along been asking. It certainly

amounts to squandering the national labor to go on coining 20-mark pieces just to see them disappear in the melting pots of our manufacturers, to whom it would be a great advantage if they could procure gold bars having a lesser value. Manufacturers make use of the gold coins primarily because they are guaranteed absolute security as to weight and standard of purity. That can not be prevented, say what you will, by any police regulation, as it is done to meet a legitimate need; for how are the small goldsmiths and others like them to get the gold they need otherwise than by procuring such ingots from the Reichsbank? Moreover, the manufacturers undoubtedly only take coins that are full weight, rejecting all those that are at all worn, and from this standpoint also the Reichsbank should have every incentive to meet the wants of industry.

As to the foreign-exchange business, I have nothing special to say concerning it.

I should like to say a few words, however, regarding the so-called "gold-premium policy" of the Bank of France. Taking the testimony of the experts, I am justified in saying that such a premium on gold has no economic significance whatever, and for this reason it is not to be recommended. It only results in making the exporters of gold take the full-weight coins from circulation, and this in my opinion is substituting a greater evil for a lesser one. It would really be better if the Bank of France were to supply gold to those who intend to export it for legitimate purposes for a small consideration. The status of the Bank of France with respect to this matter is different from that of the Reichsbank, inasmuch as it is not obliged to make payments in gold.

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I thoroughly agree with Director Ströll in his assertion that the putting up of the rate of discount is justifiable only as a temporary measure and can operate only as such. But I believe that we should draw broader inferences from this obvious fact than Herr Ströll has drawn. The conclusion that ought to be drawn is that the raising of the rate of discount is to be resorted to only under exceptional circumstances, and that the Reichsbank is in duty bound to lay in such a stock of gold in ordinary times as will enable it to meet a sudden demand without any considerable increase in the rate of discount. A number of the experts have told us that the successive raisings of the rate of discount in 1907 had, as a general thing, no practical effect whatever upon the outflow of gold, but were only a burden to our industry. The United States wanted 500,000,000 marks and had to have them. It took them from Germany and from England, and as soon as the needs of the United States were satisfied the exportation of gold ceased.

Now, gentlemen, no one is going to dispute that the gambler can afford to pay a somewhat higher rate of interest than the solid business man. While it is of no consequence to the speculator whether he pays 5, 6, 7, or 8 per cent, an official rate of discount of 7 per cent, such as we have had, to which the private banker claps on another 2 per cent, is most detrimental to our national industry.

It appears to me, then, that the Reichsbank ought to be compelled to make it its policy more than it has hitherto done—I always regard the critical year 1907 as marking the end of the old ways and methods and exclude from my

criticism the year 1908, which marks the transition of the Reichsbank to new ones—to lay up a large stock of gold at all times, and especially when the financial market is undisturbed, such a supply as will be proportioned to the development of business and the demands made upon the institution. It will not do for the Reichsbank to be constantly calling in evidence the years following 1872 or 1873 and pretending to look upon the present need for 1,400,000,000 marks as an illegitimate demand for credit which has to be kept down by some sort of forceful restraint. These 1,400,000,000 or 1,500,000,000 marks represent a legitimate demand for credit on the part of our industry and commerce, which it is the duty of the Reichsbank to find the means of satisfying.

The suggestions of Herr Fischel impress me as being excellent. In my opinion the creation of a gold market in Berlin is perhaps the most important matter to be considered, and I trust the problem will be solved in a satisfactory way through the discussions of the commission. The Reichsbank ought to be buying up the gold at those times when not everyone is anxious to have it. The abolition of the seigniorage would undoubtedly have the effect of drawing gold hither. In regard to the question put by our president to the experts as to whether it might not be sufficient if the Reichsbank were authorized to pay 1,395 marks for gold, I am of opinion that this would work well with a financier not connected with the imperial exchequer at the head of the bank, and I think the experiment ought to be made. If it should turn out impracticable to get much gold in this way, I should not

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hesitate to impose upon the Reichsbank the obligation to buy up all the gold that is offered at 1,395 marks.

In this connection the suggestion has been made of establishing a gold refinery. If it is actually our purpose to have a gold market, and one that has life in it, we are bound to provide some agency through which the value of the gold that is brought to it is officially determined. For, as the experts have informed us, gold does not come in such a condition that its purity can be at once ascertained. It has got to go to the refinery. If the business of buying and selling gold is left entirely to the private refiners, we may be quite sure that they are not going to buy up the gold unless there is more or less profit in it, while what we are intent upon is to have the purchasing of gold done in such a way that the purchaser shall not make much by it. I do not say that it is absolutely necessary that we should have an imperial refinery, but there ought to be at least some connection between the Reichsbank and this gold refinery—the refinery to ascertain the fineness of the gold that is offered for sale and the Reichsbank to be compelled, or at least authorized, to pay the current price of 1,395 marks.

Regarding the putting up of the rate of discount, I do not propose to enter into a discussion of the matter. I should merely like to remind you, with reference to the remark of Director Ströll to the effect that it would do no harm if such a thing happened as the withdrawal of a couple of hundred millions, that on the 30th of November, 1907, we were not so very far removed from the zero point. The Reichsbank had at that date in its vaults only

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470,000,000 marks, and if a few hundred millions more had been carried out of the country, we should have witnessed a financial collapse in the Reichsbank and in all Germany. [“That was an exceptional case!”]

Of course, such things are exceptional. But we must recollect that we are living at this particular time and that we have consequently to deal with precisely such exceptions. If it had not been for these exceptions, we might as well have saved the expense of this bank inquiry. Such exceptions can recur at any moment, inasmuch as the importation of large quantities of foreign securities may suddenly render an increased exportation of gold necessary. I should moreover like to call your attention to the fact that in the year 1907 we had to make heavy payments abroad on account of our purchases of raw material, the prices of which had been artificially driven up to extraordinary figures by the trusts and other combinations in the United States. We were forced to pay from 20 to 40 per cent more for copper than it was worth and for cotton still more, and we have to reckon on the possibility that what occurred in 1907 may occur again in 1909, so that our manufacturers may be obliged to spend hundreds of millions more for their raw products. And then the Reichsbank, if it takes no precautions, will find itself in the same situation as in 1907. The fact is that conditions have changed entirely. Those times are gone when the Reichsbank had to consider merely the effects produced by the interchange of commodities and ran no danger of being shaken to its foundations by inordinate needs of foreign countries.

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The raising of the rate of discount has the effect of inducing the patrons of the bank to curtail their deposits. When the rate is 3 per cent the deposits are left with the bank. When it is 7 per cent the deposits are allowed to remain only as far as absolute necessity dictates, or, in other words, they are cut down to a minimum.

In 1901, when the official rate of discount averaged 4.1 per cent, the deposits amounted to 595,743,000 marks, while in 1907, when the average rate was 6.3 per cent, they amounted to no more than 577,938,000 marks, notwithstanding the fact that in these six years the business of the bank increased by many hundred millions.

The information which we have gathered from the experts relative to the development of the private discount business has been quite a revelation to me. Herr Gontard is in favor of repealing the regulation which prohibits the Reichsbank from discounting bills below the official rate when that rate is 4 per cent or over. On the other hand, he called attention to the fact, and justly so, that the discounting at private rates benefited only the large commercial and industrial concerns. I do not agree with him in the notion that it would be well to do away with this restriction. If the conditions with respect to money and credit at home and abroad are such as to compel the Reichsbank to have recourse to such a high rate of discount, then we ought not, and indeed we have no right, to enable and empower the bank to dispense the gold to the large dealers and manufacturers at a private and lower rate of discount. Indeed, the Reichsbank itself can not help taking this view of the matter. I myself

recollect the oft-repeated complaints of the Reichsbank—whether they were justified or not, I am unable to decide—to the effect that the Seehandlung was encroaching upon its sphere in offering money at a lower rate of interest. It was on this account that the regulation was enacted compelling the banks which operate under the charters of the individual States of the Empire to conform to the official rate of discount of the Reichsbank. But would not the result be the same if the private banker were to offer money at a lower rate? Of course it would. If at the time when the Reichsbank is obliged to put up the rate of discount in order to check the export of gold, the large banking houses are placing many millions at the service of the exporter at a lower rate, who can fail to see that the effect would be the same as in the other case?

It is interesting to compare the records of the various exchanges with reference to the difference between the official and the private rate of discount. In the year 1907^a the private bank discount was lower than the official rate by less than $\frac{1}{2}$ per cent in London on one thousand and eight days, in Paris on one thousand and sixty-two days, in Berlin on two hundred and twenty-three days; there was a difference in London of between 1 and $1\frac{1}{2}$ per cent on sixty days, in Paris on one hundred and twenty-three days, in Berlin on four hundred and eleven days; there was at no time a difference of between $1\frac{1}{2}$ and 2 per cent in London, while in Paris the figure was between these limits on ninety-seven days and in Berlin on one hun-

^aThe figures here named have reference not to one year but to one thousand five hundred and twelve days. The speaker made the requisite correction at the next day's session.—Translator.

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dred and forty-eight days; and there was at no time a difference of over 2 per cent in London or Paris, while in Berlin the rate exceeded this on nineteen days. I think this whole question ought to be taken up in a later stage of our discussion, especially with reference to the desirability of instituting some sort of official supervision over the posting of private discount rates. If it is considered necessary to exercise supervision over the quotations of prices in the case of every kind of commodity in order to guard against the possibility of mistakes—or something else—then we ought by all means to subject a matter so important in its influence upon business as the fixing of the private rate of discount to some sort of public supervision.

We shall have to consider whether a situation in which there is a difference of $1\frac{1}{2}$ to 2 per cent between the official and the private rate of discount is not untenable and whether it is not possible to apply a remedy in the form of some official agency for keeping the public informed. One or two of the experts have protested against the notion that the banks through their low rate of discount have interfered with the discount policy of the Reichsbank, while others have emphatically confirmed it. For my part, I have no doubt that if in a time of great stringency the great banks go on offering large sums of money at a considerably lower rate of discount the Reichsbank will be seriously affected in the conduct of its discount business.

I will crave your indulgence, gentlemen, for a few words regarding the origin of the recent crisis. Our

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experts have maintained over and over again that the crisis of 1906 and 1907 was mainly due to the extraordinary development of our industries. I have not been willing to admit the truth of this, and I want to remind you once more that in the year 1907 68 of the larger stock companies alone had bank balances to the amount of 160,000,000 marks. This is an enormous sum, you must acknowledge. But suppose our industry was responsible for the crisis, would you consider it fair to make this a matter of reproach? Is there anything in it to cause concern? Have we not been told, on the contrary, that we must expand our industries if we wish to secure the means that will enable us to maintain a favorable balance of payments? It ought to be the duty of the Reichsbank, therefore, to adopt such measures as are calculated to promote the development of our industries. Industry has a right to demand this, not only in its own interest, but because its activities are bound up with the general interest of the public and because the balance of payments and the balance of trade would be still more unfavorable with respect to us if it were to follow the counsels of those who urge contraction. The restriction of the output of our industries affects our foreign trade above everything else, there being least profit in this branch of our commerce. If the Reichsbank complains that industry is robbing it of its money, then, I say, the Reichsbank must make it its business to have enough money on hand for the ordinary needs of industry.

This is about all I have to say. I think I have touched upon the main points, and I hope to have an opportunity

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later on of discussing some of them further. I am extremely anxious, however, that we in this assembly should come to some conclusion. I do not believe that it is going to be of much help to those who will ultimately have to pass on these questions that these twenty-three experts have simply delivered twenty-three monologues. I am sure this would not suit our president. We have got to reach an agreement regarding specific questions. The correct solution is usually between the two extremes, as Director Ströhl has remarked. Our discussions will have a greater value if we cease to treat the subject from a merely theoretical standpoint and make an honest effort to get something solid out of these discussions and to come to an agreement with our opponents in regard to certain measures. I am under the impression that the valuable suggestions of Herr Fischel in particular will meet with general assent, and if we can reach an agreement in regard to this and other questions I should consider it of the greatest advantage to our whole economic situation.

Geheimer Oberregierungsrat MÜLLER. Gentlemen, we have heard several speakers discuss the question of the consumption of gold in the industrial arts. I shall only say in regard to this that measures have already been taken to meet the wishes of the bank commission as well as of the experts whom we have heard. That which was requested is now being done. The Government had the requisite forms prepared some weeks ago, to be sent to those engaged in the industries in question, through which we ought to ascertain how much gold coin—specifically how much domestic and how much foreign

coin—and what quantity of fine gold is melted down or dissolved or used in any other way in the individual manufacturing concerns. The forms are to be placed in the hands of the proper parties through the agency of the chambers of commerce. Not only the manufacturing concerns using the precious metals wholly or in part are to receive these forms, but also dentists, opticians, and others; in short, all those engaged in repair work into which gold enters. The papers have been sent out over the greater part of the German Empire and part of them have already been returned to the department of the interior. Among the questions is one asking for a statement of the kind of alloy best adapted to the specific manufacture. This question in particular was suggested by the Reichsbank in order to obtain the necessary data for the preparation of the various kinds of ingots and other small bars in which gold can be supplied to the consumers in the respective industries. I trust it will be possible to tabulate the results before the close of the year. But this hope can only be realized if the manufacturers send in their replies as early as possible.

Doctor RIESSER. Gentlemen, in regard to the first question, whether the inflow of gold from abroad can be effectually promoted by certain methods in the adjustment of the rate of discount or in the foreign exchange operations, or by making advances of money without interest, or by any other means, I have come to the following conclusion:

I shall first take up the subject of the means afforded by the adjustment of the rate of discount.

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I think it is necessary in the first place to make it clear—especially for the benefit of those who imagine that the conditions in question have originated through some arbitrary process and can be altered by arbitrary means—that a large and steady inflow of gold into our country is an inevitable consequence of the growth of our population, taken in conjunction with the habit, which has been systematically fostered by our legislation since 1870, of carrying on business with hard cash. Until we have learned to overcome this habit by the extension of the methods for doing away with payments in coin—that is, the use of checks and drafts, and the clearing-house system—a thing that is going to take a long time, perhaps whole generations—there is bound to be a constant importation of gold. With an annual increase in the population of about 900,000 souls, and on the assumption that the present stock of gold in Germany amounts to about 4,000,000,000 marks—I refer to the estimate furnished by the United States Treasury, whose figures, as far as Germany is concerned, are based on German estimates—it would be within the truth to say that an importation of gold to the amount of something like 60,000,000 marks annually would be rendered necessary. But owing to the rise in the price of commodities, the enhanced cost of living, and higher wages (and not in any considerable measure on account of the sums sent home by foreign laborers) another 40,000,000 marks or so will have to be added to the 60,000,000 marks, raising the sum to about 100,000,000 marks. But then comes another 100,000,000 marks, which, as we have gathered from the bank in-

quiry, is the amount, approximately speaking, annually consumed in the various industries into which gold enters. We have therefore to reckon under ordinary circumstances on the necessary importation of at least 200,000,000 marks of gold, and at a time of increasing business prosperity the amount will be greatly swelled, inasmuch as the increased numbers and higher wages of laborers, the extension of manufacturing plants, and the larger volume of business transactions have the effect of putting more gold into circulation.

Apropos of the consumption of gold in the industrial arts, I must remind you that one of the facts brought out at the hearing of the experts—and their statements left no doubt on this point—is the utter worthlessness of our statistics concerning the movement of the precious metals. As to the contention that this consumption of gold in the industrial arts, in so far as it involves the melting down of our gold coin, has absolutely to be checked—and that by means of legal penalties, if practicable—I must say that I do not regard such stern prohibition as justified by the circumstances, and still less do I believe that it can be enforced, for nothing is easier than, when it comes to getting gold from the Reichsbank (an operation which need not be executed directly, but may be done as well indirectly), to be silent regarding the use for which the gold is intended or else to state it falsely or in disguised terms. I am utterly opposed to the forcible prevention by legal penalties of operations whose economic necessity and usefulness may be urged on solid grounds.

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So long as we have a favorable balance of payments, which, under ordinary circumstances, is reflected, as we should expect, in a low rate of exchange, this demand for gold will be met, under normal conditions, spontaneously without any action in the matter of the rate of discount. When the rate of exchange sinks below the gold point the importation of gold, as a rule, becomes a profitable business, and as long as we can reckon on the present annual output of about 1,600,000,000 marks such importation under these circumstances will, as a general thing, go on automatically. All efforts to prevent gold permanently from coming to us when the balance of payments was in our favor would be in vain unless means were found of increasing our liabilities with respect to foreign countries.

Now, in the past few years, as far, at least, as our methods of investigation—and I say this emphatically—have afforded us correct and adequate returns, we have been witnessing an almost uninterruptedly aggravated state of our balance of payments, or, in other words, a period of a high rate of exchange, without our being able, from the results of these investigations, either to maintain positively or to deny that we have reached the point where it can be said that the balance of payments is actually against us. The former conclusion would, however, appear to be fairly warranted by the fact that short-time bills on London have been quoted during the past two years on an average at 20.47, and in the period 1903–1907 at 20.45, and short-time bills drawn on Paris, in the latter period at 81.20.

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The tendency of our balance of trade to become adverse to us can not fail to affect our balance of payments. This unfavorable tendency is the natural result of the extremely high rate of increase in our population (for whom food and occupation had to be provided in the first place by agriculture and after that by our manufacturing industry), as the large shortage in agricultural products had to be made good, and the needs of our manufacturers in the way of foreign raw materials supplied, by importations proportioned to the accelerated rate of increase of the population. I am not called upon at this moment to express an opinion regarding the actual extent to which our balance of trade is against us, whether it should be estimated at about 2,000,000,000 or only 1,000,000,000 marks or perhaps no more than 800,000,000 marks. But this much is certain, that from our unfavorable balance of trade—the process dates back to 1899—has resulted the constantly aggravated state of our balance of payments within the last few years to which I have referred, as we have not succeeded in offsetting the excess of debit items in our balance of trade by the increase in our exports or other means of augmenting the liabilities of the outside world toward us or by the calling in of loans made to foreign countries and the like. This has been partly due to the fact that in the meanwhile the prices of the necessities of life and raw materials that had to be imported from abroad have advanced greatly, and partly to the circumstance that we have had to import more or less of some of the commodities, especially coal, that we usually export to foreign countries. We were moreover under the

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necessity, in order to promote effectively the exportation of the products of our manufacturing industry, upon which our economic welfare so largely depends, of establishing banks in foreign countries and of embarking in foreign enterprises. Besides this, in order to secure a firm footing abroad, as well as for other reasons, economic and political (see my book *Zur Entwicklungsgeschichte der deutschen Grossbanken*, 2d edition, pp. 125-126 and pp. 129-131), we were obliged to grant long credits to foreign countries, partly in the way of participation in foreign undertakings and partly through investments in foreign securities, which had necessarily the effect of rendering the balance of payments more unfavorable to us, in so far at least as the figures on the debit side representing such investments were not offset by the credit amounts representing the interest or dividends earned.

At this point I should like to say a few words with reference to what Freiherr Von Gamp has just said in regard to our foreign holdings. He appears to have been quite wrought up by the fact of our having in 1905 made investments in foreign securities to the amount of 1,218,000,000 marks, a proceeding which he described as very unpatriotic, something against which it was high time to take the most drastic measures, whether by means of legal regulations or a supervision exercised by the Reichsbank. Now, I should like to remind him that in these 1,218,000,000 marks there is a big item representing obligations of the Russian Government; that is to say, the very securities whose disappearance from the first place in the list he deplored at the beginning of his speech. It is pre-

cisely the amount of these obligations that makes the column of foreign securities in 1905 bulk so large, while, according to the statistical tables submitted to us to-day the grand total for 1906 dropped to 195,000,000 marks and that for 1907 down to 142,000,000 marks. But suppose the case had been different, suppose the total for 1907, instead of only 142,000,000 marks, had been 1,218,000,000 marks, as in 1905, still Geheimrat Von Gamp ought not to lose sight of the fact that such a showing was altogether the result of previous engagements and that we have got to live up to these engagements, even if we have to meet them at a time when it is not convenient for us as a nation or for our banks—I say emphatically, our banks—to do so. No one will seriously contend that we ought to renounce our engagements toward Russia or break off our relations with foreign countries at the very time when they need our assistance. What would become of our standing as a nation, a standing which may be regarded as equivalent to so and so much capital, of our whole financial and political reputation? As long as we Germans are not willing to return to the old standpoint, one which reflects the ancient mercantile system, and do not intend to cut ourselves off from the outside world, as long as we believe in bracing up our foreign connections for the sake of such of our industries as seek a foreign market—industries and exports essential to our very existence—and as long as we feel that our political standing and credit with foreign nations absolutely require that we make loans like those in question, just so long shall we have to keep clear of all legal enactments and supervisory regulations in regard to this matter.

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The idea of a supervisory control has been brought forward with reference to another matter, that of private discount, in order to guard against what in parliamentary parlance are called errors, but in the language of common sense falsifications. In the case of dealings in futures in the grain market, in which at one time it was also suspected that falsifications occasionally occurred, quotations have for some time past been under the supervision of agricultural experts. During all this time I have not heard of a single case of falsification of the figures, not to speak of such falsifications in a large number of cases. It will turn out precisely in the same way with the supervision of private discount. Any system of supervision, however, regarding the necessity or the timeliness of the placing of foreign loans by the Reichsbank would be altogether impracticable. The head of a nationally constituted authority or, say, of the Reichsbank would thank you for the pleasure of having to adjudge whether or not the moment is opportune for the taking up of a foreign loan. For a positive answer would mean the floating of a royal Prussian or, as the case may be, an imperial German foreign loan. It will be said that the loan has been placed upon the market with the unreserved sanction of the imperial chancellor or the president of the Reichsbank, and the public in Germany is much more influenced by such considerations than is the case in France, where something of this sort obtains. If the loan is rejected, it will inevitably result in much ill-feeling on the part of the country affected and no little friction, and, in addition, in case engagements had been previously entered into rela-

tive to the placing of the loan, the breach of contract, which would play havoc with our reputation in every quarter of the globe, would appear to have been sanctioned by the government, which is simply inconceivable. An innovation of this kind appears to me absolutely out of the question.

I must ask your pardon for having allowed my subject to run away with me, but I could not permit the utterances of Freiherr von Gamp to go unchallenged.

If as an expression of the fact that our international balance of payments is constantly becoming less favorable, the rate of exchange, as has been the case these last years, is a high one, such as to threaten an outflow of gold, it is highly important to know whether it is not possible by a vigorous application of the discount screw (to use financial parlance) to cause a steady flow of gold from abroad. I am of opinion that practically all that can be achieved in such a case by putting up the rate of discount is to hinder or obstruct or retard temporarily a further rise in the rate of exchange up to or beyond the upper gold point, or, in other words, what we should accomplish would be merely to stave off the moment when it pays to export gold. Such a measure, therefore, can be regarded only as a preventive. Neither do I believe that the putting up of the rate of discount in a case like this will have the effect of causing an inflow of gold from abroad unless we raise our rate far above that prevailing in foreign countries. If this were done, provided—and I wish to lay stress upon this—the private rate of discount was correspondingly raised (which will not be done voluntarily as a permanent thing),

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the outside world will be induced, irrespective of the state of the balance of payments, to let us have temporarily the use of gold credits in order to get the benefit of a higher rate of interest, a proceeding which, inasmuch as those credits may be withdrawn at any time, perhaps at a critical time when we can least afford it, is not altogether free from the danger of evil consequences to us.

The sale of large quantities of foreign bills in order to support and supplement such a discount policy will, under the conditions in question, merely accomplish a like result, that of exerting a certain pressure upon the rate of exchange, which has threatened to rise above the upper gold point or has already advanced beyond it. Its action will likewise be only preventive, tending merely to hinder, lessen, or retard the exportation of gold, and even this will result only, as Geheimrat von Lumm has pointed out, in case the foreign bills are not credit bills but bills drawn against merchandise. In regard to the matter of advancing sums without interest, I may say briefly that it is possible by this means also to promote temporarily the importation of gold to some extent, but this, as a rule, can be effected only in case the rate of exchange approaches the nether gold point—that is to say, when the balance of payments is a favorable one or when the rate of exchange is such as will still admit of the importation of gold.

As far as other means are concerned, I should regard the creation of a gold market in Berlin, as Herr Fischel has urged with such convincing arguments, as the thing most needed and best calculated to facilitate, at least, the importation of gold, and if under the circumstances

such an inflow is actually possible to ensure its continuance and to render it regular and constant.

I agree with Herr Fischel that to make such a measure efficacious (it will in any case be a long time before it can be made to show positive results) an essential requirement—aside from the establishment of a gold refinery or the transfer of an existing one to Berlin—is the abolition of the seigniorage, because it gives the sellers of gold the assurance that they can dispose of it here at any time and get for it a price at least up to its full value—that is, 1,395 marks for a pound of the pure metal—and, furthermore, because disengaged gold that is sent out in the hope of finding a customer is sent only to places where, as a result of a fixed price and one up to the full value, this hope amounts to an expectation. I should, however, like to ask Herr Fischel whether he considers the removal of the seigniorage adequate for the attainment of the object in view and altogether practicable at times when gold can be obtained more cheaply; that is to say, when the Reichsbank can get it for less than 1,395 marks a pound.

Mr. FISCHEL. This is not the case now.

Doctor RIESSER. Even if it is not the case now, it can easily happen, and I should like to have some explanation regarding it. He will reply, perhaps, that alongside the great advantage that would be derived from a gold market it will be of little consequence if on such an occasion we happen to incur a little loss. But if he uses this argument, I must express some apprehension that England will try to extinguish the difference in our favor in the selling price of gold, due to the removal of the

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seigniorage, by raising her price, even if that should result in a loss. I can not say that I am actually afraid of this, but it may happen.

I come now to the question of the prevention or reduction of the outflow of gold. While the importation of gold has become a necessary consequence of the increase of population, the habit of making ordinary payments in hard cash and the use of the metal in the industrial arts without regard for the international balance of payments is bound to continue, as a general thing, so long as the world's output of gold amounts to about 1,600,000,000 marks. The exportation of gold can, as a rule, become a permanent process only when our balance of payments is an adverse one and the rate of exchange rises in consequence so that it threatens to advance to the upper gold point or has actually risen above it, so as to render the exportation of gold profitable. Under these conditions the policy adopted in the matter of discount and that of foreign exchange—differently from the preceding case—would be a very important factor in temporarily preventing, reducing, or retarding the outflow of gold, and in this case the action would be not merely preventive, but restrictive.

If, in the presence of an adverse balance of payments, the rate of exchange has risen above the upper gold point, or threatens to rise above it, so that an outflow of gold has set in, or is about to begin, then, as a rule—that is, in the absence of abnormal conditions, such as we witnessed in 1907, when the United States carried away so much gold—the putting up of the rate of discount, or its reten-

tion at a high level, will be capable of temporarily preventing, checking, or retarding the further advance in the rate of exchange and, along with it, the outflow of gold. It must, however, be assumed in this case also that the private rate of discount is correspondingly raised or kept at a corresponding level, which is indeed to be taken for granted, inasmuch as the instances (which, of course, are conceivable) in which a merely temporary advance in the private rate of discount for specific reasons—as, for example, in order to pave the way for or facilitate the placing of large loan issues—is artificially brought about are extremely rare, and under the conditions which we have here assumed to exist, which in particular would render the flotation of securities impossible, they could hardly occur at all. If the taking away of so much gold by the United States in 1907 was actually effected in the face of a very high rate of discount, I am sure that the explanation is to be found in the fact that Germany owed the United States large sums on account of breadstuffs, copper, oil, and cotton, which obligations the Americans, willing to stand the loss involved in the high rate of discount, proceeded to convert into cash more suddenly and vigorously than would have been the case under ordinary circumstances. All the same, this occurrence should serve as an intimation to us that we need not stick so closely to an old notion which our theorists taught us, one that assumed the force of an axiom, since it has been shown that under certain conditions a foreign country, if it does not mind the loss, however great, occasioned by the rate of discount, will go ahead and take our gold from us.

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And now as to the foreign exchange policy. This, in the case we have here assumed, can be rendered effective for a certain time either as an independent agency or as supporting and supplementing the discount policy in a similar direction and with the same limitations. For if it is impossible with an adverse balance of payments to keep the rate of exchange permanently below the gold point, yet, as a rule, it will be practicable, when the rate threatens to advance to the gold point or has already risen to it, by disposing of a sufficient quantity of foreign bills, to prevent, check, or retard temporarily the advance of the rate of exchange to the gold point or a further advance of the rate. If this foreign exchange policy is brought into operation exclusively, it may possibly have the effect of temporarily preventing, checking, or retarding an advance in the rate of discount, while in other cases, or where this expedient in itself is ineffective, the foreign exchange policy can not fail to play an important rôle in aiding and supplementing the discount policy. I have only to add, therefore, that it is very desirable that the Reichsbank, as soon and as often as the circumstances permit, should make it a point—and a good beginning has already been made—to increase its stock of foreign bills, and above all to keep it at an adequate level to meet abnormal times, especially times of great financial strain or of impending war.

In this connection I have still to make two remarks.

In the first place, under no circumstances should it be proposed to give to this stock of foreign bills the capacity of a reserve against bank-note circulation.

Secondly, I should like to say a word apropos of Director Ströll's misgivings regarding the heaping up of English bills, which he seems to apprehend may not be honored in the event of hostilities, as we have already once had occasion to experience. I can not say that this is going to give me any concern. As we are among the best customers of England, there is always in that country a large stock of bills on Germany, so that England will be very careful not to cause any trouble in connection with English bills, as in the event of war nothing would be easier than for the German debtors to reciprocate very effectively.

In conclusion, I wish to say something concerning the so-called gold premium policy. Although I do not believe that in this matter there is going to be any great diversity of opinion in this commission, still I think it is necessary, owing to the importance of the question and to the indubitable fact that this gold premium policy has found able advocates both in the press and in public bodies, to propound as briefly as possible the considerations which appear to me to militate against it.

One of the experts who have been in favor of this expedient has referred to France as an illustration of its operation. We have, however, already been reminded more than once that the conditions in that country are altogether different from those in ours and that there is no sense in making a comparison. I think, however, that it will be worth my while to expatiate somewhat on the considerations which I have in mind and to sum them up as far as possible. France is a creditor state, while we are a debtor state. Inasmuch as her exports are

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nearly equal to her imports, she is much less dependent upon the outside world than we are. France has for a long time had a favorable balance of payments, while in our case the balance of payments in the past few years, if it has perhaps not been a positively unfavorable one, has been getting less and less favorable. However, we have had reason for not regarding France's balance as so enviable from every standpoint; for the favorable position of France in the international balance is accounted for, in the first place, by factors that do not apply to our situation and which we should not care to see entering into it, by the fact, above all, that her population and, along with it, her industrial activity have been for a long time absolutely stationary, and by the further circumstance—and I wish to lay special stress upon this feature—that the available resources of the nation are far less productive than with us, for the reason that in France they are converted for the most part into savings-bank deposits and rentes, while in Germany they become part of the industrial capital, and that in addition the Frenchman ceases to toil at a much earlier age than the German. It will not do to argue in opposition to this, as has been done, I believe, by Doctor Arendt, to whose views I have always listened with the greatest interest, even when I have not been able to agree with him, that the average per capita circulation of bills of exchange in France in the years 1876–1907 increased much more than in Germany, the amount having risen from 106 to 183 marks, while the figures were with us 72 and 124, respectively. For the rate of industrial development can by no means

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be gathered—witness the extraordinary growth in the United States, with a minimum of bills—from the average amount per capita in the way of bills of exchange, whereas the increase of bank-note circulation, which has been much more rapid with us than in France, serves as a much better index, because it reflects, above all, as one of the experts has pointed out, the demands of newly created capital.

The favorable tendency of the balance of payments in the case of France is further promoted by her vast holdings of foreign securities, as well as by the expenditure of the hosts of foreigners, especially in Paris and along the Riviera.

As far as the circulating medium in the two countries is concerned, the main thing to be observed is that the French have long since accustomed themselves to the use of bank notes in a larger measure than we Germans, so that the gold, which in consequence finds its way in much larger quantities to the Bank of France, is not kept in circulation with anything like the same pertinacity as in this country. According to the estimate that I have before me of the United States Treasury—allowance must be made for the decidedly unreliable character of the figures, but without data of some kind there is no going ahead—the stock of gold in France at the beginning of 1907 amounted to 3,890,000,000 marks, of which 2,189,000,000 marks was stored up in the vaults of the Bank of France and only 1,701,000,000 was in circulation, whereas (according to the same calculations) in Germany, out of a total supply of 4,326,000,000 marks, only 634,000,000

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marks lay in the vaults of the Reichsbank, so that no less than 3,692,000,000 marks was retained in circulation. Granted, as I myself assume, that these estimates of the United States Treasury regarding the stock of gold in the two countries are altogether too high, they will nevertheless represent approximately the ratio of the amount of gold in circulation to the amount that has found its way to the great central bank of issue in the respective countries, and can therefore serve for the purposes of a comparison. They show that in this country the gold in circulation was four times as much as that in the Reichsbank, while in France the corresponding ratio was one-half [*sic*].

On the other hand, the bank-note circulation in France in the year 1907 averaged 4,806,000,000 francs, while the average circulation in Germany was only 1,478,000,000 marks. Furthermore, the Bank of France is not obliged to redeem its notes in gold, and, finally, its notes are legal tender, which is not the case with us.

If, notwithstanding this, the Bank of France should be impelled, or has been impelled, to carry out its gold-premium policy in order to keep its stock of gold intact for times of crisis or threatening war, that would be no reason, from what I have said, considering our different economic and financial situation, why we should regard such an expedient as warranted and, above all, as one not fraught with any serious danger. In view of the conditions prevailing in our country we can absolutely not afford under any circumstances whatsoever to have any doubts arise respecting the stability, security, and per-

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manence of our gold standard. Now, the imposition of a premium when gold is taken from the bank would have the immediate effect of causing our paper money to fall below par and of unsettling our currency values. We should thereby forfeit the advantage, acquired with so much difficulty, of having bills of exchange in marks placed on a level with sterling bills in international trade, and consequently lose the dearly purchased independence of our foreign commerce with respect to British influence and mediation.

As a matter of fact, it appears from the hearings of the experts that in France itself there has practically been no longer any talk of a gold-premium policy these last ten years or so. The Bank of France in reality is satisfied for the most part, in the case of the withdrawal of sums of gold regarding whose destination or uses it is in doubt, with paying out old, worn, and depreciated coins—something which the Bank of England, indeed, and our own Reichsbank would not refrain from doing—and occasionally it demands a small consideration from those engaged in the arbitrage business who insist on getting new, full-weight gold coins. It has repeatedly taken large sums from its stock of gold in order to come to the assistance of other central banks of issue, as, for example, when in 1906 and again in 1907 it sent £3,000,000 to the Bank of England.

The further objection may be urged against the gold-premium policy that it can not, as one of the experts has maintained that it does, take the place of an otherwise necessary raising of the rate of discount, the fact being that the enhancement of the price of gold taken for export

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through the imposition of a premium, even without any change in the rate of discount, must necessarily lead to a rise in the rate of interest in the country.

I will sum up what I have said by saying that what we need above all is an improvement in the balance of payments—the attainment, if practicable, of a permanent favorable balance, which in my mind will divest our adverse balance of trade of all danger. For I am convinced that the more favorable the balance of payments with respect to a country, the less mischievous is an unfavorable balance of trade. I have expressed this on a former occasion in another way, thus: The more favorable a country's balance of payments, the more unconcernedly can it let other countries "work for it," especially in the way of supplying it with raw materials and the necessaries of life, however much this may tend to render the balance of trade an adverse one. But if we can secure or maintain—let us hope we shall—a permanent favorable balance, then we shall require neither a discount nor a foreign exchange nor a gold premium policy. We are glad to be able to note already at the conclusion of this inquiry a great improvement in the condition of the Reichsbank. The gold on hand has increased in the course of the year 1908, in spite of the lower rate of discount, by about 300,000,000 marks, or, if we include our foreign bills, by about 450,000,000 marks. But should our balance of payments continue to be adverse, as it has been these last years, then, in accordance with what I have tried to explain, something can be accomplished, for the time being at least, by the cautious application within modest bounds of the discount

and foreign exchange policy, while the adoption of the gold premium policy can only do mischief.

Mr. PETER. An improvement in Germany's balance of payments is, in my opinion, the first requisite for a strengthening of Germany's gold supply, and to bring it about should be our principal aim.

The chief cause of our unfavorable balance of payments is the ever increasing adverseness of our balance of trade. Our commerce and manufactures have expanded in the last few decades more than they had done before in the course of whole centuries. The exportation of our products and the German merchant marine attained to new proportions. In spite of all this our balance of trade continues adverse and is steadily growing more and more unfavorable.

If this adverse balance of trade in itself does not necessarily betoken an unhealthy condition and if it will not do to devote all our energies to finding the ways and means by which it can be converted into a favorable balance, nevertheless the extraordinary dimensions which the balance against us has attained in the past year is a legitimate ground for anxiety.

A sum of 1,700,000,000 marks, or, if we reckon the average annual importation of the precious metals, of about 2,000,000,000 marks must be called alarmingly big. Now, I am of the opinion—and my view has been confirmed by several of the experts who represent our manufacturing industries—that our exportations to foreign countries would assume considerably larger proportions if the foreign customs duties on our manufactured products

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were lower, and I would urge that on the occasion of the renewal of any of our various commercial treaties adequate regard be had for our German manufacturing industry, so that it may be rendered increasingly capable of competing with that of the world at large. For, gentlemen, no one will deny that the increased cost of procuring gold has been an incubus upon our industry. Even if I am personally of opinion that the high rate of discount by itself does not handicap our trade and industry to such a degree as to render them incapable of participating in the economic struggle of the nations, still I hold that every measure which has for its object the cheapening of gold tends toward the good of our manufacturing industries. I consider the new regulations regarding the Bourse a step in this direction, for I could not help noticing even in my rather narrow circle how, as a result of the prohibition of transactions in futures, which was in force until this year, spot transactions were greatly stimulated and how the necessity of procuring the sums that were needed could not fail to have the effect of making money dearer. After this preamble I will attempt to answer the individual questions.

As a result of the rapid increase in our population, amounting to about 900,000 a year, an annual importation of at least 60,000,000 marks in gold is rendered necessary; that is to say, such a sum is required to meet the additional demand for gold corresponding to the numerical increase of the people. To this must be added the increased demand occasioned by the rise in the prices of commodities, the higher rate of wages, etc., not to speak

of the needs of the industrial arts into which gold enters, concerning the extent of which my countryman, Herr Meier, has enlightened us. Now, my opinion is that it is the business of the Reichsbank to supply gold to our industries [quite correct!], and the best way, I believe, to do this is to supply it with gold bars so as to save the seigniorage. The scheme of introducing a certain alloy in our coin gold which would render its use in the arts difficult appears to me impracticable. I do not believe there is anything in this "denaturing" of gold. As things are at present constituted, the matter of gold imports is left to the exclusive charge of the Reichsbank, and thus the seriousness of the question that is now before us is manifest.

To the question "How may the importation of gold be effectually promoted?" my answer is: By continuing the discount policy which has at all times been practiced by the Reichsbank.

The operation of this discount policy has been a two-fold one. Firstly, when the rate of discount with us is higher than it is abroad the inducement of a higher rate of interest will lead the outside world to buy up German bills, and thus gold will come into the country. Secondly, the greater the demand for German bills abroad, the higher will be the rate on them, and consequently the lower will be the rate on foreign bills in Germany.

There is, however, something else to be taken into consideration. The putting up of the rate of discount under certain circumstances has a wholesome influence upon the inordinate spirit of enterprise that is manifested by

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our trade and industry [quite correct!], and consequently a favorable effect upon the balance of payments. The Reichsbank has, however, never attempted (and properly so) to depress the rate of exchange below the gold point in order to induce a natural inflow of gold while artificially maintaining the rate of discount at a high level. For if it were to do this, we should have reason to fear that the outside world, its suspicions having been aroused by the circumstance, instead of buying up German bills might on the contrary call in its credits in Germany. In spite of the high rate of discount, the rate of exchange would advance, and the result of such an expedient would be a fresh outflow of gold in place of the anticipated inflow.

The rate of interest depends entirely upon the relation between the supply of capital and the demand for it. Any resort to artificial means in order to influence it—such a measure has justly been characterized by one of our experts as a dangerous expedient—far from doing any good, would only have the effect of increasing our indebtedness to foreign countries, and therewith our dependence in financial matters upon the outside world, and of exposing us to the danger of being compelled at any time to repay the sums of gold that had come into our possession.

If a sagacious adjustment of the discount policy is to be regarded as the most efficacious means at our disposal of preserving our stock of gold, a well-regulated exchange business ought to be considered a valuable adjunct. We have all been greatly interested to learn from the statements of Doctor Von Lumm how active

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the Reichsbank has been in developing its exchange business, and I believe that the benefit resulting from it to the money market will be a permanent one.

In regard to the important question as to how far the stock of foreign bills should be accounted part of the reserve against circulation, it seems to me that a definite sum—100,000,000 strikes me as about the right amount—might be reckoned as cash gold and added on to the metallic reserve. I mean to include in this sum only bills drawn upon the biggest banking houses. I think that in this way the Reichsbank would be in a position to expand its foreign exchange business, and I can not see how our exchange business in general could be injuriously affected, as I imagine that the Reichsbank buys up these bills right here in the country. The Reichsbank would simply be following the custom of the Oesterreich-Ungarische Bank in making a separate entry of only that part of its foreign bills which is reckoned as part of the gold reserve, while the remainder would figure under the head of bills on hand, on the principle set forth by Geheimrat Von Lumm.

There is no doubt that the importation of gold can be stimulated by a liberal application on the part of the Reichsbank of the policy of making advances without charging interest. This may be readily inferred from the effect of what the Reichsbank has already done in the way of affording such facilities.

I attach much importance to the suggestions of Herr Fischel relative to the building up of a gold market in Berlin and the abolition of the seigniorage. There is,

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of course, no means of preventing an outflow of gold, which is the natural result of the state of the balance of payments. A well-directed discount policy will, however, have the effect of restricting it. It can keep it within certain limits, and in this respect the discount policy of the Reichsbank has been found to work well. I lay special stress on this.

The so-called gold premium policy in my opinion does not merit consideration in Germany, inasmuch as it presupposes a double standard. We have succeeded admirably well with our monetary standard. We owe to it the great development of our industries, and every attempt to tamper with it I should resist with all the ardor of conviction. Such proceedings would only inflict irreparable injury upon our standing as an industrial nation and would oust the imperial mark bill from its position in international trade, which it has so happily secured through the efforts of our bankers and merchants.

Doctor LEXIS. It is not necessary for me, gentlemen, to repeat that which has already been said by several of the speakers and which was previously stated by a number of the experts, to the effect that the outflow and inflow of gold depend ultimately altogether upon the balance of payments—the balance of payments in the strict sense of the term, implying that the balance of trade is not the sole determining factor. Let us suppose, for example, that our yearly imports of merchandise amount to eight billions and our exports to six billions, and that we further receive from abroad, say, one and a half billions in the way of interest, dividends, and other sums due to us. The

balance of payments then will be adverse to the extent of half a billion marks, and if this goes on for a few years our whole monetary system will naturally fall to the ground, or, in other words, our circulation will have come down to a paper basis. Now, even under these circumstances, even if the balance of payments were to continue regularly adverse in this worst sense, it would still be possible, of course, to draw supplies of gold. Even a country whose currency is on a paper basis can get gold if it is willing to pay the price for it, and it would be practicable, so long as we continued to have any credit abroad, in one way or another, as, for example, by a higher rate of discount, to draw upon the world's stock of gold under all circumstances. If the rate of interest is 7 per cent here and 3 per cent in other countries, we shall be in a position, I repeat, so long as there is such a thing as German credit with foreign nations, to procure supplies of gold. But in this way, to be sure, our indebtedness will only have been further increased, and our monetary system will finally be unable to withstand such an aggravated situation. Under these circumstances we should inevitably come down to a paper standard. Now, I believe that the facts of our balance of trade do not warrant any positive conclusions in regard to the actual state of our balance of payments, for I am convinced that the figures are altogether unreliable and that our export trade would appear to much better advantage if we had more correct data. Our trade statistics are naturally much less trustworthy in the matter of the exports than of the imports. In the case of the imports, most commodities pay duty and everything is therefore

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carefully entered. In the case of the exports, and in particular in regard to their value, we have no sufficiently trustworthy statistics. I believe, consequently, that our balance of trade is more favorable than it appears. And as regards foreign liabilities toward us, such as are met by dividends, interest payments, etc., I believe the situation is more favorable than it was represented to be in our previous discussions by one of the experts, who was too conservative in his estimate of the amount of our capital invested abroad. The fact remains, however, that the rate of foreign exchange with us in the last few years has not been altogether favorable. But if we were actually so overburdened with debt as we should have to infer from the commercial statistics and these unfavorable estimates of the foreign indebtedness to us that does not figure in the balance of trade, then foreign exchange would necessarily have been so much against us as to have risen above the gold-export point; that is to say, we should already in the course of the past year have been gradually brought to the stage of a premium on gold. I can not help thinking, therefore, that our balance of payments on the whole is always in a measure in the neutral zone, and that, such being the case, it will not be impossible by a resort to some lesser expedients, and in particular to the discount policy, to turn the scales to one side if it should become necessary. There can be no doubt, then, that a well-adjusted discount policy, which indeed would be in line with the best traditions of the Reichsbank, would be a very effective means of inducing a sufficient inflow of gold into Germany.

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The other means that have been suggested have also their value. Of course we need a good stock of foreign bills, of gold bills, that may afterwards be enlarged in a practical way so as to be capable possibly of turning the scales in favor of an inflow of gold. In this respect also the Reichsbank has already had recourse to the necessary measures and it is perhaps in a position to develop this foreign exchange business further. I, for my part, should not be opposed to having a definite moderate amount of foreign gold bills legally included in the cash reserve of the bank—not the whole amount of foreign bills. I say not the whole amount, but, just as is the case with the 60,000,000 crowns in Austria, we might reckon 50,000,000 marks as part of the bank's stock of gold, a requisite being that the bills be drawn on England. I do not, I confess, regard the misgivings based on political considerations that have been expressed with respect to this matter as altogether baseless, but I can not say that I feel any real apprehension.

As regards the question, "How can the importation of gold be promoted by the establishment of a regular gold market in Germany?" I am likewise altogether in accord with the sentiments of Herr Fischel. I believe that it would decidedly help the situation if the Reichsbank could work along the same lines in this matter as the Bank of England. If we assume, to begin with, that the seigniorage was abolished, then the present minimum rate of 1,392 marks might be retained as the rate at which the Reichsbank is compelled to buy all the gold that is

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offered, just as is the case in England with the rate of 77s. 9d. Above this there is free play first of all up to 77s. 10½d.; this is the par of gold, the rate at which it is coined. Now, the Bank of England, as everyone knows, goes even beyond this; occasionally it will go as much as 1½d. higher, getting up to 78s., and even a shade above that, if I am not mistaken. This would mean in reality a sort of premium on gold. This is bound up with the fact, however, that in England the gold coins, as compared with gold bars, do not retain their full and absolute nominal value, so that a certain average deviation is to be assumed. And so the Bank of England is ready at any time, when it happens to be in need of gold, to buy up what is offered even at a price above par. The Reichsbank could do the same thing. It might give a little freer play to competition, let us say, with the Bank of England if need be, in the matter of attracting bullion. Of course, the competition at times would be apt to be a pretty keen one, but then the Bank of England is not always so terribly anxious about increasing its stock of gold. We should therefore have to expect a variable price. The Reichsbank would have a free hand to go from the minimum price of 1,392 marks to a higher one which it thought suitable. It might possibly be considered expedient to go, say, as much as two-tenths per cent above the par of 1,395 in order to attract gold. When it comes to it, gold is in this respect merely a commodity, like any other. Just because it is a question here of attracting bullion from the Transvaal or from Australia and preventing it from going to England,

inducing it to come direct to Germany, the operation would have to be regarded simply as one of goods offered for sale and bought. And indeed the price can be put up as high as seems compatible with the average wear of the gold coin. Beyond this point, to be sure, the gold-purchase premium—which is not to be confused with the other kind of gold premium—would result in a regular premium on gold. Such a thing, of course, would have to be averted by every possible means.

It would, perhaps, be feasible, even without the removal of the seigniorage, for the Reichsbank to establish a gold market of this kind here. It would only be necessary to make a provision that the bank's gold bullion and foreign coins be reckoned at 1,395 marks instead of only 1,392 marks, as is the case at present. I should regard such a proceeding as entirely devoid of danger, for the Reichsbank has at all times a sufficient supply of gold in the form of German coins to meet all demands for the redemption of its notes. Over and above this, therefore, it could reckon its gold in bullion and foreign coin simply at the par value of 1,395 marks. It might consequently prove unnecessary to do away with the seigniorage. There would be no need at all for the bank to coin. If gold were wanted for export, the bullion could be made use of at this price of 1,395 marks, which is in reality determined by the nature of things. In this way the scheme of gold purchases by the Reichsbank at a variable price might, perhaps, be rendered feasible, without the necessity of abolishing the seigniorage, merely by means of the provision that the bullion and foreign coins in the

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bank be reckoned at 1,395 marks, and the mobility and availability of Germany's own gold would not be at all endangered, for the bullion would at any time be available for the purposes of export. In our country there is in general no demand for large amounts of gold coin. Indeed, Ricardo's idea was that bank-note circulation should be covered exclusively by bullion, as he believed that bank notes would by themselves be amply sufficient for internal commerce, and when gold was wanted for foreign payments it would be easy to obtain bullion for these notes and send it abroad.

As regards the question of the consumption of gold in the industrial arts, it seems to me above all most important and expedient that we should become thoroughly posted regarding the actual state of things, steps toward which end have indeed already been taken through the official inquiry that has been instituted. On the other hand, I should be altogether opposed to any sort of prohibitive regulations such as Director Ströll has suggested. These things have been done before; indeed, the practice was formerly universal. Every country forbade not only the exportation of gold and, in particular, of gold coins, but above all the melting down of coin. In England, at the beginning of the last century, at the time when the currency was on a paper basis the question was constantly asked as to why bullion was so dear, and the regular answer was that the trouble was not due to the depreciation of bank notes, but that, bullion being required for export, and bullion alone being available for export on account of the regulation against the melting down of

coin, this was the reason why there was such a high premium on gold bars by the side of bank notes. The fact was disputed that paper had depreciated by the side of coin. It was in regard to this matter that Ricardo wrote his famous treatise. So we see that the prohibition of the melting down of gold, which figured in these discussions, is an ancient affair that has long since been shelved, and I hardly think it would be advisable to revive it. Neither do I think that there is much to be achieved by it. Every year there is so and so much gold imported in the shape of bullion and foreign coins, and if part is coined what is left is, of course, available for the purposes of industry. Now, if we prohibit our industries from melting down gold, they will have recourse all the more to the imported bullion and foreign coins. There will then be that much less of the metal available for coinage.

In reality, however, the melting down of coin would be stopped by the very measure that has been suggested, namely, that the Reichsbank shall place at the disposal of our industries a suitable and specially adapted material, perhaps of the requisite fineness for direct use. We all know that our gold industries make use of the very lowest grades of metal that the market affords; 14-carat gold (of the fineness of 0.583) passes as the finest. In England they use 18-carat gold. That is the ordinary fineness there, and in France the regular standard grades are about as high. In France a lower grade has, to be sure, been introduced for the purposes of export. Now, it is mainly because of this cheap and low-grade gold that the product of our gold industries has been rendered

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available for export. The 14-carat gold is the fine grade; the common gold is the 8 carat—one-third gold and two-thirds copper. The latter is especially adapted to the South American trade. It is just in the matter of the exports that the German gold industry is most pre-eminent. Hence the large quantity of coin gold that is melted down, and the salient fact in regard to it is that the outside world pays for this consumption of gold. But, what is more, the outside world pays for the cost of the workmanship. Most gold articles contain mighty little pure gold, but for all that they are not cheap, as the main cost lies in the workmanship and not in the little bit of metal that they are made up of. It would therefore be much wiser to encourage this industry than to restrict it in any way. In my eyes this large consumption of gold in itself is only an indication of the favorable state of our industry. And as regards the evil of the melting down of coin, we shall have to apply some other remedy, and that ought to consist in placing at the disposal of our industries an ample supply of gold bars of the kind that they specially need. A peculiar thing about this melting down of coin is the perplexing statistics to which it is bound to lead. We are glad to see such and such a quantity of gold coined every year and figure out how large our stock of gold must be, and then after a while we discover that so and so many millions have disappeared and gone into the melting pot.

This inability on our part to rely upon our reckonings is a disagreeable thing, and what we ought to do is to

endeavor to make our statistics more trustworthy so that we may have a satisfactory basis for estimating the consumption of bullion in our industries.

I think I can say now that I have touched on all the questions before us. As for the gold premium policy, I have already at a previous stage of this discussion expressed myself fully on the subject. I am convinced that it is out of the question as far as Germany is concerned. Of course I am speaking here of a premium policy intended to hinder the outflow of gold. Another kind of premium policy, however, may well be urged, such as I have just been advocating, one intended to attract gold by means of the offer of a somewhat higher price for bullion than is generally got for it.

Mr. MÜLLER (Fulda). I wish to say, gentlemen, that I agree with the view of the speaker to whom you have just been listening that the most effective means of promoting an inflow of gold is to insure a favorable balance of trade and also a favorable balance of payments. You have been reminded of the fact that the balance of trade and the balance of payments may be of an entirely different character. This is absolutely to be taken for granted. But if the speaker meant to say that the statistics of our export trade are not altogether reliable, I must tell you that I am of a contrary opinion. Since the introduction of the system of statistical returns it is particularly in what relates to exports that the statistical figures have been accurate and trustworthy. The statistics of imports, which are mainly based upon estimates, are not nearly so

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reliable as those of exports, for which the so-called green blanks have to be filled out.

(A voice: Valuation!)

In regard to the means at the command of the Reichsbank of promoting the inflow of gold, the first thing to do is to make it clear that the Reichsbank, which we are inclined to make responsible for all the evils in the land, is unable to bring about a favorable balance of payments. There are other and quite different factors involved. It has means, however—we speak of these as minor expedients—of facilitating the importation of gold. These are the three expedients that are set down in the question sheet: First of all a suitably adjusted discount policy; secondly, a properly developed foreign-exchange business; and thirdly, the advancing of sums without interest. Now the Reichsbank has for years been resorting at times in a very energetic way to these expedients. And it has indeed, especially in recent times, achieved positive and far-reaching results. We can certainly afford to contemplate with great satisfaction the present condition of the Reichsbank as compared with that in the past two years. It is not my purpose to compliment the president of the Reichsbank, but I will say that he has since the beginning of 1908 brought about such an improvement in the condition of the Reichsbank that it is likely that the whole inquiry would not have been instituted had we been a year or two ago in the situation in which we are at this moment. The average stock of gold has increased in the course of the past half-year by 300,000,000 marks, and a

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further improvement is in prospect on account of the foreign gold bills that are to be disposed of and the gold shipments that are on the way, for which advances have been made without interest. I must say that if such a substantial improvement has been realized through the consistent application of practical measures, we have a right to express our gratification at what has taken place [manifestations of approval], and I must say, moreover, that this whole proceeding that has been instituted for the reform of the status of the Reichsbank has no longer any particular object ["quite true!"]; it has been completely deprived of its *raison d'être* by the force of circumstances, and it is but fitting that we convey our full appreciation of this to the Reichsbank. ["Quite true!"]

It has been able through its effective measures to remove the grounds on which the whole agitation rests. The measures may have been in part of a rather incisive kind, and there were not a few who groaned under them, but recovery was impossible without thoroughgoing methods. An energetic cure had to be applied, even if certain professional and industrial classes were thereby greatly incommoded. I believe we have every reason to be satisfied with the policy of the Reichsbank, and I congratulate it upon what it has accomplished. It will be able now, when the question of the renewal of its charter comes up and the bill for the purpose is submitted to the Reichstag, to point to the results it has achieved and to the extent to which its situation has improved in every way.

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As a fourth expedient for increasing the gold supply, Herr Fischel proposes the creation of a gold market in Germany. I believe that this suggestion also merits praise and consideration, and even if I personally do not perhaps anticipate quite as important results as some of the other members, I am decidedly of opinion that such a market—it would be the second in Europe—ought to be created; all the more so as there is little risk involved and because the results will show whether there is any great practical value in it and, above all, whether it has the effect of inducing a regular and steady accession to our gold supply.

In regard to the conditions that have especially affected the balance of payments in the last few years, I merely wish to dwell upon one point, which has already been touched upon in this discussion, and that is, that the situation in 1907 was an exceptional one. There was a great increase in 1907 in the cost of the raw materials that Germany has to get from abroad, and especially of the principal raw materials, such as wool and cotton, an increase which in these two articles alone amounted to over 300,000,000 marks. The enhanced price of our manufactures resulting from the burden to our industries involved in the additional expenditure of about 300,000,000 marks had the natural effect of making the balance of payments and the balance of trade more unfavorable to Germany. Since then the situation has again changed. Cotton has dropped to its normal price, while wool is but slightly above its normal price, and, as a result of this, our balance of payments and our balance of trade will make a better showing this year than last.

When we come to the second question (B) respecting the causes of an outflow of gold, I believe that we have to consider precisely the same reasons and remedies as in the matter of promoting an inflow of gold. The promotion of an inflow and the prevention of an outflow are intimately connected; we have to deal with the identical causes and remedies; answering question A is equivalent to answering question B.

The question has also come up for discussion as to whether the French gold premium policy may not be worth trying in this country. I do not believe that the French gold premium policy is an expedient calculated to protect or to increase the stock of gold in the Reichsbank. The speakers who have preceded me and who have taken up this matter have shown in the most conclusive way how different the situation in France is from our own, and furthermore how largely this gold-premium policy exists merely in the imagination of those who make use of it as a weapon of agitation.

The Bank of France exacts only every now and then a premium on certain kinds of gold coin. I regard the introduction of a gold premium as altogether unadvisable, as a means not at all calculated to maintain our gold supply. It would only tend to prejudice our financial standing in the world at large. It would only create the impression that Germany desired to establish an artificial premium in order not to have to meet its liabilities toward the outside world to the full measure. Any country that introduces a premium on gold is bound to lose its credit abroad, and German import and export—the trade of

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Germany in general—would suffer evil results from such a measure more than sufficient to outweigh all the good it could possibly effect. What does no harm perhaps in the case of France could under the changed conditions easily work great mischief for Germany.

(Bravo!)

Mr. KAEMPF. A great deal, gentlemen, of what this discussion was intended to call forth has already been said, and so, I suppose, I had better be brief. I do not care to discuss the general questions that belong to the past, the development of our industry and its influence upon the position of the Reichsbank. We see that we have got back to normal times or that we are about to get back to them, and I should be almost ready to conclude that it was hardly necessary to have recourse to extraordinary measures such as the instituting of this bank commission.

In regard to the questions before us, I agree with those who hold that it is only through a favorable balance of payments that gold can be permanently made to flow into the country and remain there. But the problem of the balance of payments is an extremely intricate one and hardly admits of a theoretical solution. The balance of payments is not like the balance sheet that a bank draws up at the end of the year, which shows how much it has gained or lost in the course of the year, and which enables it to set forth its condition with respect to assets and liabilities. The balance of payments of a country keeps fluctuating all the time, and there is no way of determining by any fixed principle what it is at any particular time, and even if at a particular moment it appears to be

favorable or the contrary, no indication is afforded of its general or continuous state.

The factors entering into the balance of payments have been analyzed in detail in the course of this discussion. They include the balance of trade, the exchange of commodities, the investment in foreign securities, the dividends derived therefrom, and, in addition, the profits and freights accruing from our trade with foreign countries. On each and all of these matters the Reichsbank is naturally unable to exert any direct influence. The exportation of commodities can be promoted only by a suitable commercial policy. The profits derived from foreign trade and navigation will be large or small according to the nature of the commercial relations which this country sustains with other countries and to the extent to which the outside world can be induced to avail itself of the agencies at our command. Just as little can the Reichsbank compel the investment of German capital in foreign securities. But it is this very thing that needs to be promoted as far as practicable. For the greater the extent to which our capital is invested in foreign securities the more will the dividends derived from them tend to change an adverse balance of payments into a favorable one.

While the Reichsbank is not in a position to exert any influence with respect to these conditions, still it is enabled to level out temporary fluctuations in the balance of payments and to counteract the effect of temporary unfavorable conditions, and to this end the discount policy and the means which the Reichsbank has of facilitating the

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importation of gold are preeminently adapted. I believe that the discount policy of the Reichsbank is fully capable of keeping down the fluctuations arising in the development of the balance of payments. I feel sure that even in 1907, when the United States was drawing away so much gold from Germany, the putting up of the bank rate to seven or seven and one-half per cent contributed to relieve the situation. The United States indeed was not prevented thereby from getting gold from us, but other countries were induced to send us gold. Thus French and English capital kept flowing into the country, so that in part, at least, the disadvantages resulting from the drain imposed upon us by the United States were offset. The same thing will take place in the future whenever similar conditions present themselves.

If, then, the raising of the discount rate by the Reichsbank can not altogether be avoided, still I agree with those who are of opinion that the bank should refrain as far as possible from resorting to it, inasmuch as various industrial interests are apt to be thereby injuriously affected. In order to avert this necessity, recourse will have to be had to other means calculated to counteract the evils resulting from the fluctuations in the balance of payments.

Among the means that have been advocated is the foreign exchange business. I believe in this expedient. If the Reichsbank, when foreign bills are comparatively cheap, buys up such bills and lays in a stock of them, and when there is an active demand for them goes about to dispose of the bills, its action will tend to hinder an outflow of gold. The bank will then seek to control the exchanges

in such a way that there shall no longer be any occasion for such an outflow.

Another expedient that has been suggested is the making of advances without interest to cover importations of gold. I consider this an efficacious means of facilitating and increasing gold imports. Of course these are merely temporary expedients, for if the balance of payments on the whole remains adverse the gold that is brought into Germany in such a way will not stay in Germany.

The suggestion made by Herr Fischel also strikes me as a likely expedient for attracting gold temporarily into the country in case of emergency. Nay, more, the establishment of a gold market may even have the effect of making the permanent stock of gold in Germany larger than it would otherwise be.

The raising of the purchase price of gold—and the removal of the seigniorage is equivalent to it—will naturally tend to promote an inflow of gold into Germany. And if a gold market should be developed in Germany, a stock of gold will be accumulated, which will tend, more or less, to become permanent. I am all the more in favor of the proposition, inasmuch as the establishment of an international gold mart in Germany is the first step toward making Germany, more than she has hitherto been, a center of international exchange, an international market. I trust that this may have the effect of removing the obstacles that still stand in the way of the establishment of international relations at the German Bourse. I believe, gentlemen, that altogether too little stress is laid upon this matter. If the whole

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world will be ready to transact its business in Berlin, as it now does in London, then credit balances from every part of the world will accumulate at this very place, Berlin, just as they now do in London, and the more credit balances from the whole world accumulate at one place the cheaper money will be at that place and in that country. Up to the present moment, however, everything has been done that might tend to prevent our Bourse from becoming a center of international financial operations. Perhaps when an international gold market has once for all been established in Germany, the understanding will more rapidly gain ground in Germany of the beneficial properties of an international market in general.

As for the premium policy, it is hardly worth while my wasting any words on the subject. You may speak of it from whatsoever standpoint you choose, but the fact remains that whosoever accepts a premium on the gold which he has contracted to pay will be regarded, if not as a debtor who seeks to relieve himself from his obligations, at least as one who has trickery about him; and a debtor who is tricky in his methods will always be regarded with a certain amount of mistrust by his creditors, and I fear that if we were to introduce a premium on gold we should find ourselves in the position of being accounted by the outside world as of doubtful credit, which certainly can not be of any advantage as regards our whole industrial development.

There is still another matter in regard to which I should like to express myself, one which Freiherr von

Gamp has brought up. He has favored us with a clear exposition of the fact, gathered from the printed statistics, that in 1905 an inordinate amount of German capital found investment in foreign securities. At the same time he explained to us how it is that France has such a favorable balance of payments. ["Quite true."]

He tells us that in France there is such a volume of foreign securities that the interest, dividend, and amortization payments are sufficient to change an adverse balance of payments into a favorable one. I can not see how it is possible to amass such a quantity of foreign securities unless by doing it gradually year by year, buying up the securities and keeping them, so as gradually to reach the point where the income derived from them mounts up to a large sum. I am, therefore, of opinion that we are not committing any mistake whatever in making the largest possible investments in foreign securities in order that we may get into the same favorable situation into which France has been placed by the policy it has pursued.

I have one point that I wish to touch upon—and I trust that your Excellency, Mr. President, will not take it amiss if I do not altogether share your view—and that is the fact mentioned by your Excellency that under certain circumstances the gold purchased by us abroad may not have to be paid for with gold. Your Excellency pointed to the fact that we are buying coffee, copper, and cotton without having to pay gold for them. My opinion is that the only way we can buy any of these articles, or gold itself, from the outside world is by giving gold for them or something that represents gold.

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The CHAIRMAN. But the gold need not be paid out.

Mr. KAEMPF. True; but in that case so much the less gold comes into the country. For if there is due to me in England a sum of £5,000,000 and I am not under the necessity of buying with it either coffee or copper or cotton, I shall sooner or later have gold come into the country on account of these £5,000,000. I think that we ought to look upon this whole matter from the standpoint that in every case we have to pay with labor performed in Germany for whatever coffee or copper or cotton, or, if you choose, gold, we may wish to import from abroad and that this labor performed in Germany, when it is sold abroad, represents gold.

But all these matters are of secondary importance. I am of opinion that our whole policy should be directed toward improving our balance of payments [“quite true”], through increased facilities afforded to importers and the raising of our markets to the level of international markets, so as to make them capable of realizing commensurate profits, and, as far as the Reichsbank is concerned, I believe that it can do nothing else than to keep a close watch upon the individual phases of the balance of payments as they develop, in order, when the occasion requires, to apply the measures whose operation we have heard discussed in detail—the discount policy, advances without interest, the foreign exchange policy, and the gold market. And the Reichsbank must absolutely avoid anything that might tend to lead to the impression abroad that we are not willing to fulfill our obligations as the best of debtors do.

B a n k I n q u i r y o f 1 9 0 8

Mr. ROLAND-LÜCKE. The necessity under which Germany labored in the past year of bearing the burden of an unusually high rate of interest is what gave occasion to the summons for our assembling here. The cause of this abnormal rise in the rate of interest was the convulsion produced upon the world's economic stage, in the midst of a terribly overstrained situation, by the New York panic, as a result of which the United States was obliged to procure gold from every possible source regardless of the cost. Had Germany herself not been at the time in such a state of tension, had she been able to plank down a plain sum of two hundred millions in gold, the crisis, as far as she was concerned, would not have been a very acute one. But the situation happened to be what it was. I personally do not consider this temporary strain, about which there is such an extraordinary outcry, such an evil as Herr von Gamp has depicted it to us. I think we had better dispel our illusions and make up our minds to the fact that, had there been no such thing as a New York panic, we here in Germany, where only a few months before there was a general feeling that our industrial activity had been overleaping all legitimate bounds, would have had to undergo a long spell of hard times, or at all events that our trials would have been bound to be much more protracted than they are were it not that the sudden culmination of the financial crisis in itself brought about the possibility of a more rapid return of better conditions. I believe that, apart from the political clouds that at present hover over our economic horizon, we are practically agreed that the indications are already at hand of a

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speedy return to a more favorable economic situation. Had we not had the New York panic with its fearful warnings and the necessity imposed upon Germany of effectually restraining her industrial energies, we should probably have had to endure several years of inactivity instead of a single year, which would have cost us a great deal more money than the present much less prolonged (as we hope) state of industrial stagnation has cost us or is going to cost us. I am convinced, gentlemen, that no science or practical experience can ever transform the undulations of industrial activity into a uniform level. Yes, if we prefer the quiet of the graveyard we can have that permanent level. The undulations are necessary, as has been made clear to our satisfaction by several members of this commission and the experts who have been called upon to give their opinion.

We have been summoned by the Reichstag to meet here as medical specialists consulting in regard to the condition of a body, which in this case is the economic body. The economic body has to be made more elastic, its digestion is to be improved, and we are told, "Take this arm and strengthen it." Wherefore this summons, I can not comprehend, unless the author of it first asks, "How are we going to improve the blood of the economic body," a question which is preeminently for the Reichstag to consider. I know that I am exposing myself to the charge of repetition. I think I have already at a previous session of the commission expressed my views regarding the cause of the acute stage of our whole economic development in the last few years.

I think I can afford to stand this charge, for even from our standpoint we can not too often repeat that it is, above all, for the Reichstag to see to it that our financial policy and our policy in the matter of commercial treaties are sounder than they have hitherto been. If the Reichstag is not willing to go ahead energetically in this direction—it is not the only guilty party, for great examples are apt to be the models of many others—then we can not expect that our States and our cities are going to act differently. The seven-league boots that have been buckled to our feet in our whole progress for a succession of years have come to be a nuisance. Let us not imagine that between now and a few years from now we can all of a sudden make provision in every direction for our descendants for decades to come. We ought to endeavor judiciously to make the cut of our cloth conform to our resources and to keep it there, and, therefore, I say once more that the fundamental trouble that is at the bottom of this whole overstrain is that we have been neglecting in our legislative bodies and the corporations whose business it is to keep their hands on their purse strings—whether high or low in the scale is immaterial—to exercise a needed and wise economy and to carry on a suitable and businesslike financial and commercial policy. We have, however, not been summoned as general practitioners, but as specialists. We have, therefore, to grapple with the question: Will it ever be possible for the Reichsbank, in its whole organization and development, by shaping its policy in one way or another, to attain to a state of greater elasticity and influence?

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If, to begin with, I take up the first division of the question, "How may the importation of gold be effectually promoted? By suitable management," etc.? I need only refer you to the statements of our chairman. It has become evident to you that the Reichsbank, even in its present shape and form and within the regulations that prescribe the range of its activities, possesses in a large degree the element of elasticity, so that if Germany is at all in the position to import gold the Bank is able to provide the facilities for such importation by making use of the means that are at its command for that purpose. That the Reichsbank can be made by any rigid code of regulations to resort to these means invariably at the right moment I do not, however, believe. All that we have a right to affirm, therefore, is that the Reichsbank, organized as it is, is absolutely in a position, if it chooses to apply wisely the means at its disposal, to perform the functions assigned to it with respect to the importation of gold.

Can we, then, by one or other of the means which the various speakers have advocated, promote the importation of gold? We ought, of course, to welcome every effort directed toward the creation of an international gold market in Germany, and, therefore, I am altogether in favor of the scheme of Herr Fischel, whose suggestions have a practical ring about them. But I wish to give fair warning—and we might as well prepare ourselves for the eventuality—that if the results are not quick we shall more or less have exposed ourselves to the charge of having instituted measures that were bound to be fruitless. ["Quite true!"]

B a n k I n q u i r y o f 1 9 0 8

Gentlemen, we have allowed the opportunity of creating an international gold market in Germany to slip by, and if we are to be guided by the present political horoscope it will be a long while before an international gold market will come into being in Germany. I am convinced that if such measures as that releasing the Reichsbank from the seigniorage and others of the same sort should actually come to the knowledge of the world it is altogether likely that, in spite of the stiff conservatism of the Londoners who represent the city, England will very soon find one way or another of depriving Germany of the advantage of the start she has got. Even if the Bank of England would not be willing, of its own accord, to take any such steps, still we must take account of the nervousness displayed by large classes of the British population, a nervousness which will go so far as to make London itself feel that England can not afford to be deprived by Germany of the start which it has in the gold market.

But I am not afraid that if England does this it will eventually turn out that all our measures have been in vain. I should just let events take their course. If between now and three years from now we have not succeeded in doing much for our gold market, still let us hope that the time will come when things will look different in this world, and just as we are no longer politically the focus of—I was going to say—universal mistrust, so nations will bring money to us here in Germany, especially if we, in the way Herr Kaempf has shown, should otherwise bestir ourselves to make of the Berlin Bourse an international exchange, which it might long since have been.

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Herr von Gamp has made one or two remarks which I should not like to let pass unnoticed. He is not present, and as I am not sure that I shall have another opportunity of replying to him, I think I had better not neglect the present occasion. Herr Kaempf has already told us that the question for us to ponder is: How shall we acquire interests abroad; how shall we find ways and means, apart from the exportation of our industrial products, of making this or that foreign country be in debt to us for something, be it gold or the equivalent of gold? All in all, it is not from this standpoint alone that it is necessary for Germany, if she wishes to remain a great industrial country, with a population commensurate with its industrial resources, and to continue to be a powerful state, to become the possessor of foreign securities. Unless she does this she is bound to sacrifice her commercial influence in remote regions. Just take a little survey of the countries which offer a field to German industrial activity and decide between these two propositions: Shall we Germans content ourselves with simply sending out our travelers in order to sell for money, or shall we invest money in promising undertakings in countries which we deem fit for the purpose, in order to be enabled, directly or indirectly, to exert an influence upon their import trade, an influence essential to the most fruitful development of the industrial activity of Germany? But tell me, gentlemen, how are we ever to attain to this high pitch of industrial activity unless we succeed in exerting a certain influence upon the purses of the countries in question? Those articles which foreign countries buy from us merely on the strength of

their superior workmanship are not apt to be a very important factor in our balance of payments unless we are willing, with due regard to our resources, to exert our activity also in the financial field—just as the English have done and as they have always been able, and are still able, to do in a much greater measure than we Germans—in order to retain the hold which we have secured and to strengthen it as far as possible. Otherwise the globe will soon be partitioned off to our disadvantage, and we ourselves, with the great need that we have to labor for our foreign trade, are going to be left out in the cold. [“Quite true!”]

The charge has been occasionally made that our industry is responsible for the whole situation. And so it is, even if it be only the innocent cause. You may tell me, gentlemen, that industry has not overstrained itself. I maintain that it has been expanded too rapidly—and I don't mean merely in some one branch or another, but in general. I myself have had the experience that when, up to the beginning of 1907, I urgently advised this or that manufacturer, as I frequently did, to desist from expansion, because presumably the possibilities of a market would soon be diminished, the people were ready to laugh at me. As long as the manufacturer has his factory working at its full capacity, as long as he sees good and profitable orders flowing in, you may warn him as you please; he will, as a rule, not believe you; and consequently he considers it necessary to enlarge his plant. Now, it was not through undue self-confidence or shortsightedness that our industry was developed to excess; I must again cast the reproach for a too hasty expansion upon the Reichs-

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tag, the diets, and the common councils. Had we proceeded somewhat more deliberately with our cultural evolution we should not have made it necessary at all for industry to execute vast undertakings in an extremely short time. We should have allowed it more time to complete those undertakings. Industry would not then have been tempted to disregard foreign countries in a large measure in recent years through having too abundant, profitable, and convenient work here in Germany. It would have continued to devote more attention to foreign lands, would not have dropped, here and there, connections then existing and which it must now arduously strive to resume; and we should, consequently, have experienced in Germany also a more gradual development, corresponding better with our actual strength. Let us not deceive ourselves; we increased our industrial equipment in the years 1904, 1905, and 1906 far too hastily. If we believe that the expenditure for establishments and supplies in the States and cities of Germany proceeded in recent years largely on a scale and at a pace which must naturally be succeeded by substantial and prolonged restriction, upon financial grounds, this necessary economy involves the disadvantage for industry that the excessive equipment actually exists and must conquer occupation for itself in the markets of the world, which, for good or ill, it had to neglect before.

Herr von Gamp spoke further of the gold industry. I, too, regard our gold industry as decidedly useful economically. I can not verify Herr von Gamp's figures, but I imagine that of the 100,000,000 that he specified a con-

siderable portion must be reckoned as used in manufactured articles containing gold in some form, which are sent abroad. To depreciate our 20-mark pieces in any way would, in my opinion, be a very serious matter. If you can produce at a comparatively low rate any sort of small gold bars that would satisfy the manufacturers it would, it is needless to say, be most welcome.

Herr von Gamp has addressed a pretty general reproach to us, as if we desired that certain things should not be made very clear. I think it is requisite that we, too, should emphasize that we have no motive whatever not to wish for ourselves all the definite knowledge and enlightenment that are attainable in any field. Only the very narrow-minded would possibly want to stick their heads in the sand and say: I should rather not have that ascertained! When Herr von Gamp suggested that an effort be made to ascertain the amount of gold in the country, I at once responded that we should welcome it most heartily; that it was precisely the banker who was most interested in finding out as accurately as possible what the gold backbone of the country actually is, so that he may be able to reckon with a factor as definite as possible, instead of, as now, having to calculate with uncertain estimates. Herr von Gamp would like to have a series of laws. We would, in so far as I can say "we" in this connection, raise no objection to that, in spite of the fact that we have a superabundance of laws in Germany, and would support the laws if we could promise ourselves that they would be of some practical value. The more active, however, the

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law-making machinery is in this domain the greater, presumably, will the confusion be, as Herr von Gamp indicated, and the spirits which are meant to be laid will, on the contrary, be vigorously aroused.

If Herr von Gamp imagines that a certain influence will in the future have to be exercised upon flotations, then I believe that he is mistaken as to the actual conditions. Were the foreign office or the Reichsbank, with its present organization, simply to say to any one who desired to make a flotation: We do not wish the flotation—then, I think, there would hardly be a single house engaged in this line of business that would ignore this consideration, in whatever shape it was urged upon it, and say, I shall make the flotation anyhow. Herr von Gamp underestimates the influence of the Reichsbank, which it can exert even now if it desires to do so. But to put the direktorium of the Reichsbank under the necessity, as one of the previous speakers has already explained, of sanctioning or rejecting, to a certain extent, every flotation, that would indeed be the most dreadful thing imaginable. I hardly think that any member of the present direktorium of the Reichsbank would under those circumstances continue in his position at all; and if, possibly, other gentlemen inclined to accept such a responsibility would step into their places I should deplore it exceedingly, in the interest of our entire economic life and in the interest of the Reichsbank. Our German public would see in such an organization only this: Now the matter is examined by the State and rejected or sanctioned, and if it is sanctioned the State is, naturally, responsible for

everything. It is desirable that we should make the German people as independent and discriminating as possible in regard to financial concerns; such a measure, however, would be exactly calculated to prevent that desirable condition.

If we really wish to promote the drawing of gold from abroad, we need only address a request to the Reichsbank that it should proceed in the future as it has hitherto done, and as was lately, in particular, exhibited to us in a practical form; and if I consider both the inflow and the outflow of gold—they can not, indeed, be separated—I can only repeat the remarks made by one of the previous speakers; let us make our balance of payments favorable, let us seek to extend our business abroad as widely and advantageously as possible, to have a wise internal financial policy, and the balance of payments will assume a healthy shape quite by itself. That in practice abuses as regards gold exports may occur is, indeed, obvious; but the Reichsbank is, by itself, perfectly in a position to deal with such abuses. I should like to see the person who, it might be through arrogance or on account of some petty advantage, would persist in exporting gold in spite of the wishes of the Reichsbank. In the interest, however, of the standing of Germany—and that for the present still plays a great part—a surrender of 10,000,000 marks will under certain circumstances be voluntary, expedient, and necessary in order that we should not, perhaps shortly afterwards, have to surrender twice or three times that amount; and if a case stands thus, the Reichsbank will, naturally, place the smaller sum voluntarily and quickly at disposal.

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As to the premium policy, I consider it of no value as regards its practical effects; nay, under existing conditions I should even, as other gentlemen have already remarked, consider it actually dangerous.

That I favor the proposition of Herr Fischel in regard to the remission of seigniorage for the Reichsbank, I have already observed; I would only add now that even if we can not exert a rapidly favorable influence thereby upon the condition of our gold market, we should not on that account allow ourselves to be discouraged from introducing such a measure. For there will come times when we shall feel very comfortable with such an arrangement; only by looking forward to a gradual success in the course of time can such measures be adopted—not with the expectation that success will follow in the space of a year's time. The gold market will, with us, be created and vigorously developed only when Germany shall once more inspire greater political confidence in the moneyed people of the world than it does at present.

The CHAIRMAN. Herr Raab wishes to have the floor.

Mr. RAAB. I have as yet not requested it, but if permission has already been granted me to speak, I will avail myself of it, particularly since the remarks of the gentleman who spoke last assumed a critical tone in regard to our present economic policy and the action of the Reichstag in the economic field. I belong to those groups of the Reichstag that have supported the recent economic policy, and we did this, among other things, with the conviction that precisely this economic policy—protection of domestic labor and the domestic market

against an unnecessary flooding by foreign products—exerts a favorable influence upon our balance of trade and balance of payments also. I believe that this economic policy must be continued, nor can I perceive any valid considerations against it in the complaints which have been urged here. For the rest, I can subscribe to almost everything that has been advocated here by the majority. I would, indeed, characterize the discount policy even more emphatically as an almost barbaric, cruel instrumentality, because it cripples and burdens our entire economic life enormously. This means should not often be resorted to, and only under particularly unfavorable conditions. It is desirable in the interest of our domestic labor that a moderate discount rate be exceeded as rarely as possible.

The extension of the foreign-bill business—I have already expressed my opinion about it—I regard as another means by which the drawing of gold from abroad can be temporarily promoted. Furnishing advances without interest, too, in the measure in which it is done at present, is doubtless to be regarded as occasionally useful.

But perhaps I may be permitted yet to revert to something that I have already briefly discussed, namely, that the drawing of gold from abroad might perhaps be furthered by receiving deposits abroad.

The question sheet contains, it is true, only the question whether and how we can supply the Reichsbank's stock of gold through domestic deposits. I have already acknowledged that the question sheet does not fully entitle me to discuss this matter here.

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(A voice: "In Question VI.")

It does not belong there any more than here, Herr Mommsen, if we wish to speak of the drawing of gold from abroad, for Question VI refers also only to domestic deposits.

I know that there is a wide-felt need, particularly in German circles, of an institution to which money may be intrusted without any anxiety. There are a great many Germans abroad; they save money, which they must now, for the most part, intrust to foreign banks. In the United States the people receive, as a rule, interest at the rate of 3 per cent on such money. If we had an arrangement that would make it possible for Germans abroad to deposit their money in the German Reichsbank, or even if the Reichsbank would simply receive consignments of deposits, it would be most welcome to many beyond the seas, and we should doubtless improve our balance of payments. Now, these sums might, of course, be demanded back in critical times, but this would in fact never happen quite suddenly. I even believe that Germans abroad will never demand their money back in critical moments as rigorously and anxiously as foreigners who have balances in Germany.

The objection has been raised against accepting domestic deposits that a fixed limit must be set upon the amount of such moneys, but that, with the numerous branches of the Reichsbank, it would be impossible to oversee the amount of deposits placed at its disposal at any moment. Now, gentlemen, if deposits from abroad may be remitted to the central point in Berlin alone,

then it is, of course, possible to ascertain the total amount and to determine whether the fixed limit has been reached or exceeded. Nearly all the other reasons that have been adduced against the acceptance of domestic deposits are likewise invalid in regard to moneys from abroad. I need hardly demonstrate this in detail.

On the whole, I should think that my proposition, too, if it is carried out simply, economically, and practically, might contribute a small share toward influencing the influx of gold from abroad more advantageously for us.

It might, besides, have a favorable effect upon our economic life. I assume that a great part of this money would not be demanded back, but would be employed in purchasing German goods and thus promote our economic interests. I should be greatly pleased if my proposition were to be included in our debates, if only for the purpose of drawing my attention to difficulties and considerations which may stand in the way of its execution.

I, too, consider it urgently necessary that we should strengthen our stock of gold, that we should secure a better balance of payments. Now it strikes me as a somewhat inexpedient step to recommend here the investment of German money in foreign loans without adequate restriction. We are told, to be sure—and very alluring instances have been spread before us—that the gold which we invest abroad comes back to us, in the first place, and, secondly, we gain the interest besides, for the entire time; the amount that we have sent out, therefore, is actually doubled or trebled, and improves our balance of payments. But Herr Roland-Lücke has already

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spoken of the seven-league boots with which we should really not yet have provided ourselves. It seems to me that the whole state of our economic affairs should emphatically warn us to exercise restraint in regard to foreign loans; we can not engage in them, at any rate, as long as conditions at home are still such that we have a high money rate, under which industry and all our domestic labor threaten to be crippled. If we wish to take over and promote foreign bond issues, the money for them ought to be taken only from a surplus which can not be really well applied at home. If, however, as is the case still to-day, our discount rates are higher than almost anywhere else in the world, it is a proof that our embarrassment at home is still quite considerable. At such a moment to give the advice, "Send your money abroad, so that you may gain the interest!"—that seems to me as if one should say to a man who complained that he could not make a living: "Lend out money and live on the interest!"

As regards the question whether and how we could make our balance of trade, and, as a consequence, our balance of payments also, more advantageous, I would still add the following: We can certainly not, as I think, further promote our exports artificially to any great extent. I am pretty well informed upon the subject; our export trade is carried on at quite a small profit and it has already made the greatest possible efforts to find a market. We can not, then, it seems to me, develop our export trade much more. Now, there is, perhaps, still the other, negative means toward a more favorable

shaping of the balance of trade; namely, the restriction of imports. In our import list many articles are found which we could produce ourselves. This matter rests, indeed, upon somewhat delicate ground; but I think that we could learn a little something from America. The commercial treaties and tariff rates are, of course, fixed; but the United States stretches a point in order to maintain a favorable balance of trade. It puts up its protective—really combative—duties, and besides, as far as is possible, keeps imports out of the country by tricky devices. Now, I do not wish to plead in favor of such tariff chicaneries. But I believe that Germany often exhibits a degree of complaisance towards imports which is economically hurtful. Even if it is not the business of the bank inquiry commission to devise ways and means against it, I wished to present this idea to Herr Roland-Lücke, who considers that even our by no means harsh protective policy goes too far. I think, on the contrary, that our present economic policy must be maintained, and in certain respects even reenforced, if the balance of trade and the balance of payments are to be made more favorable.

Doctor WEBER. Herr Raab began his remarks by saying that he could not agree with Herr Roland-Lücke's position, that our economic policy had affected our balance of trade unfavorably; on the contrary, at the time this economic policy was introduced, the assumption in the Reichstag was that this protective policy would act advantageously upon our balance of trade and our balance of payments. If we examine the statistics which the president of the

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Reichsbank has so kindly had prepared, we find that in Germany, in contrast with England, the amount of the excess of imports over exports increased in the last five years by about a billion marks, while in England the excess of imports was reduced by a billion; and if Herr Raab is of the opinion that our protective policy exerts a favorable influence upon our balance of trade, it would be bound to appear in the figures somewhere, debatable as they may be in some respects. Our protective policy, be it ever so justified on some grounds, has failed in this regard.

We must recognize that Germany—whether this is to be regretted or not—has consummated its transition from an agricultural to an industrial state; it can not be denied that we have become an industrial state, and it appeared also from the remarks of most of the experts and likewise from the statements to-day of different members of the commission, that they are convinced that we must aim especially to increase our exports and that in our debates our attention must be specially centered, as Herr Roland-Lücke justly observed, upon this point: How can we make our balance of payments favorable under any circumstances, at least more favorable than it is to-day? Herr Roland-Lücke applied the comparison of the healing of the arm to our economic body. This comparison fits perfectly, and if Herr Raab meant to say that we must restrict our imports, I really do not know how he can think that. Manufacturing and commercial interests do not import for pleasure; it is only that we need the raw materials in order to keep our workmen occupied to carry out our undertakings, and

in order to have at our disposal the most necessary supplies that we do not produce; and when we see in the reaction which has now set in how great is the number of the unemployed in Germany, and when you hear from the country in which I live, Saxony, that the factories are, in part, working only three to four days a week, and partly only six to seven hours a day, it furnishes a point of view which is of greater weight than all of Herr Raab's statements. If we are not in a position to keep our industries employed through a brisk activity in imports and a corresponding activity in exports, we have conditions such as, sad to say, prevail in wide circles in Germany to-day, and as, whatever way we look at it, gives us food for thought.

Several gentlemen, further—the last speaker among others—made reference to foreign loans and the investment of German capital in foreign loans and enterprises, and expressed their regret, based upon the table presented to us to-day, that such considerable sums are tied up in those securities. Freiherr von Gamp used the expression that he was frightened at the figures regarding foreign loans. I was frightened at the figures exhibited by the German municipal loans and debentures in this statement. If you compare the year 1900 with the year 1907, you find, in the case of the foreign loans, granting that the figures of the *Deutscher Ökonomist* are authoritative, a retrogression from 275,000,000 marks to 150,000,000 marks, while, on the other hand, the municipal loans rose, in the same period, from 220,000,000 marks to 430,000,000 marks. If anyone, therefore, ought to impose a restriction upon him-

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self, it would, perhaps, have been more appropriate to hold up the municipalities and the debenture institutions. Municipalities and the State must, before all else, return to greater economy.

But those views involve, besides, a complete misunderstanding of the important function of foreign loans in regard to our German economic affairs. It can not be pointed out often and emphatically enough that we must take up foreign loans in order to better our balance of payments. I am not as optimistic as Herr Müller (Fulda), who believes that our balance of trade and balance of payments will be improved in the course of the next few years; particularly in view of the fact that the steady increase of population and the undeniable fact that our agriculture is not in a position to augment its production in proportion to the progressive growth of our population, must make it increasingly necessary for Germany to import greater quantities of foodstuffs, wheat, etc. We are compelled, therefore, to create values to offset this increasing importation of the necessaries of life and to see to it that the growing need of raw material for manufactures, conditioned by the same fact of the increase of population, shall be balanced by some other means.

The question of the consumption of gold by our gold industry was, furthermore, raised. In view of the enormous figures of our balance of trade, a sum of 80,000,000 marks of gold used in manufactures ought not in itself, in an economic field as vast as that of Germany, assume such great importance. Herr Geheimrat Müller, too, investigated this question closely and accepted the figures,

80,000,000 to 100,000,000, as correct. I can not test them; they were only gathered from the estimates of the experts. I think, however, that a slight improvement in the condition of our export trade would at once counter-balance this consumption of gold in manufactures; and the speaker before the last, Herr Roland-Lücke, remarked, besides, that surely a great part of the gold manufactures go abroad and yield equivalent values. I do not attach the great weight that a number of the previous speakers do to this use of gold in our manufactures. I am rather of the opinion that no sort of difficulties should be put in the way of the gold industries in procuring the gold required.

I would, further, revert once more to the figures which deal with the flotation of foreign loans, and would call special attention to one point. Herr Geheimrat von Gamp assumes that the sums, amounting to 142,000,000 in the year 1907 and 1,200,000,000 in 1905, that were floated or offered on the Bourse really found their way into the German Empire. That, however, is not necessarily the case. Those sums may be admitted to the Bourse, but are not on that account all taken up in Germany. In that respect, then, these figures do not give a correct picture. On the other hand, Freiherr von Gamp felt it his duty to give a prominent place to the opinion—against which objection has already been made—that it is requisite to introduce control over the flotation of foreign papers. This question was thoroughly discussed last spring by the bourse commission of the Reichstag, and, as far as I remember, the Government

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itself attached importance to declining such an office of control under any circumstances for reasons which appear obvious at once and which are primarily concerned with politics. The authorities of a State or an Empire can not undertake to play the controller as to whether to-day our great banks shall put Russian or Italian loans on the market; for they might in that way, as is quite evident, easily be drawn into diplomatic or political conflicts.

Gentlemen, the individual questions that are put down on the question sheet have been so exhaustively debated that it is hardly necessary to discuss them much more. I, for my part, too, am of the opinion that the policy in regard to foreign securities, which the new president of the Reichsbank has this year successfully continued in the Reichsbank with reenforced vigor, will doubtless meet with good success in the future, too. At the same time I would express the opinion also that such a policy can represent only a temporary expedient for bettering the condition of our money market. As to the main thing—it is not necessary to emphasize this every time—it must be ever again pointed out that only by having quite a favorable balance of payments, such as we formerly had, will a deficiency of gold be permanently warded off. But in any case I believe that Herr Fischel's proposals, approved by the speakers, would have an excellent effect, especially if at the same time the question of the purchase of gold and of advances for gold imports were handled by the Reichsbank a little more commercially, perhaps, and not fiscally. I do not know for how

long a time the Reichsbank grants interest-free advances; perhaps this interest-free time may be somewhat extended. I can not judge of it, however, offhand.

I am, further, of the opinion that a raising of the rate of discount will, by all means, conduce to prevent the outflow of gold to foreign countries. It was pointed out in the debate by one of the gentlemen that in November of last year the United States drew away its credits with us. I do not think that this is quite accurate; it was at the time probably not so much a matter concerning American credits with us as that other countries, with which the United States had credits, drew on us; and, in this respect, the raising of the rate of discount constitutes a good remedy against a too abundant outflow of gold to foreign countries.

The question of a gold premium I regard as hardly one to be debated. It has long since been settled in France; and the arguments of the best advocate of the gold-premium policy, Doctor Arendt, have convinced me that he himself is convinced that in Germany nothing can be done with it. I only hope that he will make a vigorous use of this change of view in the Reichstag as well. [Laughter.]

The fixing of the private discount rate, as related to the official Reichstag discount rate, was also discussed this morning. It would be a misconception of the character of the private discount rates to suppose that the discount policy of the private institutions must necessarily result in thwarting the policy of the Reichsbank. It was also said that this private rate benefits the great industries alone. I do not share that opinion; the small industries

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and commerce likewise make active use of this private rate; I can say this from my own experience, and it will be admitted, too, by everyone familiar with the situation. It is, therefore, a false view of the matter that the great banks and the great industries alone take advantage of this arrangement for the purpose "of procuring cheaper money." It was even stated recently in a journal that the firm of Mendelssohn & Co. and the Deutsche Bank of Berlin fixed the private rate on the Bourse and exploited it for themselves. I saw this assertion with astonishment in a great political newspaper of Saxony. For that matter, the Reichsbank, by the Imperial Treasury bills in its possession, has the best means of controlling the level of the private rate of discount.

Gentlemen, one point more I should like to call attention to, and on this I have changed my opinion somewhat in the course of the inquiry. I have become convinced that there is some truth, after all, in the view that the stock of gold in Germany is less than is estimated. I am of the opinion that the various contributing elements—for example, travels abroad—cause more money to flow into foreign countries than we assume. We have a rate of 4 per cent, the Reichsbank is well provided, and, in spite of that, we find that precisely in times when industry is languishing and not as much money is expended for wages as at other times there is a certain dearth of ready money. That is an indication that there is less metal in many districts, and that on an average, too, less is found in Germany than is assumed in the estimates.

The question was put, in conclusion: What effect does the discount policy, in particular, produce? That has

already been fully discussed. Other means than the raising of the rate of discount to check the outflow of gold into foreign countries, I do not consider available; in my judgment the only possible way for us to retain money is by raising the rate of discount in times like last year; and since we must reject the premium policy without question, the Reichsbank will have no other way of checking the outflow of gold into foreign countries than through its policy in regard to foreign securities and to the rate of discount. But I consider it regrettable, too, that, as another gentleman has already pointed out, in times like last year efforts should be made to check the outflow of gold to foreign countries by artificial means, since that can only conduce to render the credit of the German Empire questionable abroad. In such times it is, in my estimation, better, in the interest of the development of our fatherland, to pay a higher rate of discount temporarily, and to give up without fuss the money that has to go abroad, than to pursue the opposite policy. There can, indeed, be no doubt on this point.

The CHAIRMAN. Gentlemen, it is a quarter of four o'clock; I submit it to you whether I may permit another gentleman—it would be Herr Schinkel—to speak; and in that case I, for my part, wish briefly to make a request concerning the question whether we should create a gold market here; and in this connection I would ask the gentlemen who are specially versed on the subject to give their opinion upon a question which, if it has not a decisive bearing on the action of the Reichsbank, must at any rate be considered.

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The Bank of England is free in its purchases whenever it is a question of paying a price above 77s. 9d., and it is free to decide what price beyond that it wishes to give. According to the propositions made by Herr Fischel, the Reichsbank would have to bind itself to be ready to pay permanently or for a long period a price of 1,395 marks for all the gold offered to it. Now, Herr von Lamm has already explained in his statement—and the gentlemen agreed with him, too, on the point—that the present system of interest-free advances presents a problem for the Bank, and he remarked: “The Reichsbank must be quite sure that gold which would have come to it anyway does not come to it by this means; and it can, therefore, grant the interest-free advances to such houses only as are worthy of perfect confidence and about which it is convinced that they would otherwise not import the gold. It may happen that quantities of gold are concerned which are not intended for Germany at all, but only pass through Germany in the transit of traffic. In such cases the Bank must guard against granting an advance.” This policy of carefully selecting the absolutely reliable firms, the Reichsbank is free to pursue as long as it limits itself to interest-free advances. If the Reichsbank, however, bound itself—and this is the question I propound to the gentlemen—to grant, permanently or for an extended period, the fixed price of 1,395 marks, would not the consequence perhaps be—since the firms could not then be selected, but everybody’s gold would have to be accepted at a price of 1,395 marks—that a number of persons or firms would avail themselves of the

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chance to speculate at the expense of the Bank? That is, they would bring it gold which would perhaps flow to it anyway. And, secondly, if the gentlemen agree with me, do they perhaps regard this standpoint, in connection with the main question, of such minor consequence that it can be properly overlooked?

Gentlemen, I would beg you to take these questions consideration in your answer; all the more because, as Herr Roland-Lücke has already pointed out, with the nervousness of the English market our action might provoke it to frustrate the creation of a German gold market by preventive measures. And here the question is pertinent whether the present system, without the official declaration that we must pay permanently—or it may be, to begin with, until July 1, 1909—1,395 marks, does not seem calculated rather to check such preventive measures? I beg the gentlemen, only for our information—the matter itself is, indeed, of the greatest significance—to take these practical considerations into account also in their answer.

Mr. SCHINCKEL. I must in the first place express my regret that, owing to an unfortunate accident, Freiherr von Gamp should again be unable to be present, just when I can not refrain from reverting to several things which he said to us this morning; for we should like to have him come around toward our views, as we have already succeeded in having him do in the case of the gold premium and on other points also. I can in the main and on the whole, however, express myself very briefly, because I

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agree in general with what Herr Geheimrat Riesser and President Kaempf have already fully enlarged upon here.

Our honored president said this morning, "Only don't let us have too much talk on the subject of the balance of payments; it is such a boundless topic," and I can only fully assent to his opinion. On the other hand, however, gentlemen, the notion and the actual condition of our balance of payments are too closely connected with the questions that occupy us here to allow it to be wholly eliminated from our discussions. Certainly the balance of payments is of decided consequence in relation to the Reichsbank's stock of gold and the importation of gold into Germany; that, I think, is evident to all of us. But, gentlemen, as to creating a balance of trade, the Reichsbank can do that just as little as anybody else. The Reichsbank can be equal always only to its statutory object—to be the regulator and to exert its activity in regulating our money market. Conjure the Reichsbank can not; and in this connection I may be allowed to contradict the view that gold can be made out of paper. I am of the opinion that all the gold that we get must be paid for in some way with gold or gold value, whether it be with goods or by the relinquishment of our claims abroad. To a certain extent an exception for the Reichsbank in a narrower sense is formed by the gold that it gets from Germany itself through the issue of small notes. But that is only borrowed gold, and the Reichsbank must return gold for them, too, as long as its notes are always redeemable in gold.

For the rest, the Reichsbank must never by any means be held responsible if the balance of payments does not

turn out to be such as to draw in gold permanently. If we advance too rapidly in our economic developments—I will illustrate this by an example: If we build too many and too large ships, so that we are obliged to tie up a great number of them, then we have committed an economic error which affects our balance of payments unfavorably. We have put money into the ships; these ships, however, bring no freight surpluses, and therefore no gold values, from abroad, and our balance of payments is unfavorably affected thereby. If industry has expanded so considerably—I do not wish to cast a reproach upon industry for it—that it must to-day keep a great part of its establishments at a standstill, then that, likewise, constitutes an unfavorable factor for our balance of payments; for we have in that way tied up money—of which we have not much, indeed, to spare—and the balance of payments can be maintained only by a profitable activity.

I would linger a moment more on the subject of the balance of payments. We agree upon this, too—I have to my satisfaction heard it from all sides—that balance of trade and balance of payments are two fundamentally different things. To be sure! It was explained, further, how the balance of trade is supplemented by factors which can not appear in the statistics. There were mentioned the much-debated foreign loans, the interest which accrues from them, the freights of our vessels; and commerce, too, was now and then touched upon. I am of the opinion that the last factor is extraordinarily underrated, for the idea is quite extensively held in broad sections of Germany that commerce generally is not profitable. Now, in

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relation to our balance of payments, it is, as I shall presently illustrate by a few instances, extremely productive.

I will cite a few little examples—one should not tell tales out of school, but the subjects that engage us here are of so serious a nature that the question of business secrets can not be considered—a few little examples from my own experience that go to show how the balance of payments may be made productive by the activities of trade; and I naturally include in this the activities of the banks also. I know a certain foreign bank. This bank has in the twenty years of its existence in Germany paid out up to this time 15,500,000 marks in dividends; it has, furthermore, accumulated in the shape of surplus and undivided profits an additional 4,500,000; this bank has thus brought 20,000,000 marks into Germany and distributed them here in the shape of dividends to its shareholders. Now, that would not be extremely noteworthy; but if I disclose to you that this bank never had a red cent of German money abroad, but that, because the exchange conditions of the country concerned required it, it did business only with the money of that country—and naturally also with the credit of the sponsors back of the bank—then you will have to admit that this 20,000,000 marks never impaired our balance of payments. For no money ever left Germany, but the entire capital was always put out at interest here, so that this little bank alone effectively improved our balance of payments by 20,000,000 marks.

Another case is that of the German saltpeter works which have been established in Chile, and this upon the

basis of the acquisition of the lands and purchase of the shares by persons who were then living in that country. We did nothing but grant a loan of 15,300,000 marks; and this 15,300,000 did not go out either, for the capital was used to pay for machines which were produced in Germany. In this sense even the money for the loans remained here. The share capital—for we made it a condition that the company must be a German one—never left Germany. Consequently the shareholders moved to Germany, and consequently, of course, collected their dividends in Germany, and of the entire loan only 10,200,000 marks are still in circulation. Five millions have already been returned, and not less than 7,000,000 marks have been paid out in dividends in Germany.

I think, gentlemen, that through such simple examples—I mention them on that account, the thing in itself may appear trivial to you—a fundamentally false notion which has become fixed in many minds may be got rid of, namely, that the factor of trade is really hardly to be taken into account in the balance of payments. I encountered it to-day in a perfectly unbiased quarter; Professor Lexis endeavored to throw light on the balance of payments in connection with the balance of trade, and he excluded that factor entirely. But it is in reality a factor—the cases cited are only insignificant examples—which, be it said for our consolation, makes good a great part of our balance of trade.

One word to Herr Raab. The money that serves to improve our balance of payments is money that is earned

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by our trade with foreign countries. If, as Herr Raab would have it, trade should be confined as far as possible to our own country, this redressing of the balance of trade could not take place at all, and his native city of Hamburg might as well shut up shop. For this I can tell you out of my own experience: That as to the profit that Hamburg's trade makes out of domestic commerce, she certainly couldn't live on that. In a general way, the entire profit that trade brings into Hamburg is a profit made abroad, which improves our balance of trade.

I have endeavored to fill what appears to me a slight gap in the discussion by these perhaps somewhat too extended remarks.

I shall now touch very briefly upon the separate points that are mentioned in the question sheet. Something has been said about statistics and an ascertainment of the amount of gold, especially by Freiherr von Gamp. I consider that such statistics are hardly practicable and very expensive, but if it will set you at rest I am willing to waive this and shall make no opposition; let the counting go on, then! Like all statistics, these, too, will be misleading.

But I ask: What purpose can they really serve? I did not in any way get at the bottom of what purpose they are really to serve, either in the debates in May or at present. And if we did actually determine by this counting that there are in Germany instead of 4 billions—which nobody believes—only 2 billions, shall we on that account be any richer or shall we be any poorer? Much more important is the question which was first touched

upon here: Is business in Germany sufficiently saturated with money? But with how much money it is actually saturated is indeed of exceedingly minor consequence.

Turning now to the matter of foreign loans, I regret the absence of Freiherr von Gamp. As I mentioned before, he was at first glad that we had had those loans, but regretted greatly that we no longer have many foreign loans, and now he regrets anew that we are on the point of procuring those loans again. Yes, gentlemen, there were times when we did not congratulate ourselves upon possessing Austrian rentes in such great quantities; when, namely, the Austrians began to partially discontinue their payments. We got rid of the Italians through no fault of our own; the Italians drew them in at rates at which they could no longer be of any use to us. That some sort of equivalent must be procured for all this is, in my judgment, obvious. Now, here again statistics have been collected, but I almost regret the labor that has been expended upon them. These statistics—we could recognize that in Freiherr von Gamp's remarks—again misled him entirely; Herr von Gamp has once more completely confounded two things. We have already explained that the prospectuses relating to admission to the Bourse give no clue whatever as to the amounts that are actually to be found in Germany; if out of a loan 20,000,000, say, are really taken up in Germany, a prospectus must be issued covering 400,000,000. Herr von Gamp remarked that the other 380,000,000 have, in consequence, the right of domicile in Germany. Naturally they have that, but they are not on that account yet in Germany; we have not, on

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that account, paid for them yet. On the contrary, with the conditions that have prevailed in Germany it may be assumed that the 20,000,000 have in the meantime disappeared.

What the statistics are meant to prove on Herr von Gamp's side is a thing perfectly inexplicable to me. For if it is stated that in the year 1905—he supposed it was a year of crisis; on the contrary, it was a year of the very greatest prosperity—these 1,500,000,000 of loans were really introduced here by way of prospectus, that does not signify that those 1,500,000,000 were placed in Germany.

Now, as to the foreign-bill business. I need not dilate upon that either; we have all become satisfied that, with the excellent management of this branch of business by the Reichsbank, a gap has here been filled, and that efforts are being made to carry the measures still further for the benefit of the economic policy of the Reichsbank.

One word more about bills upon England. I have myself before remarked that bills upon England can not possibly be reckoned as part of the stock of gold, because it does really to some extent appear doubtful how the thing will turn out in the event of war. But, on the other hand, I must likewise add the opinion that the English is not the worst portfolio that the Reichsbank will have in case of war. In the first place, there are many occasions when these bills may be used in neutral countries for payments that we shall have to make, be it for grain or for other great necessities, in Holland or elsewhere, and the Dutch will gladly accept a bill upon

England as payment. But besides that, gentlemen, there will be many a bill in the German portfolio of the Reichsbank which is not paid forthwith upon maturity. At all events it is no mistake, but, in my eyes, a good feature in the condition of the Reichsbank—we are, to be sure, agreed that this should not be made public—if it has many foreign bills as a reserve in its portfolio, in order that it may exercise a regulative activity.

Gentlemen, I do not wish to enter into a detailed discussion to-day of the propositions made by my honored friend Herr Fischel, because I understand from him that he is to give us still further explanations. I am fully aware that one of the experts, whose opinion had great weight with us, the Director of the Frankfort Assay Office, has in the meantime changed his views and has, I have been informed, addressed a writing to the Reichsbank in which he withdraws the opinion that he gave here as an expert. I have not yet been able to work myself fully into this belief. I hold that it would be exceedingly useful for us—and I thoroughly sympathize with the movement—if we were to succeed in creating a gold market in Berlin. The difficulties loom up before me as very considerable. I feel sure that the English market will not stand calmly by. The Bank of England is in a position, as has already been frequently explained, and as I also wish to emphasize, to pay more than the normal price for gold. I am afraid that if the price is raised here by 6 marks, owing to the abolition of mint charges, England will follow suit. I would not be positive in regard to this until we shall have listened to further statements from our honored Herr Fischel.

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One point, however, I can not suppress even to-day, and that is, that the Reichsbank should at once raise the obligatory price that it wishes to pay by 6 marks. I have on this matter had statistics collected which, however, I understand from Herr Fischel, are not correct; and I have greater reliance, as I said before, in Herr Fischel, as a practical man and as a great expert in gold arbitrage, than in our own people; but according to this estimate there certainly were days in every month from May on when gold could be bought in England below 2,790 marks. Now, this may not be quite accurate; the costs may have been forgotten, and Herr Fischel is surely better informed about all this; but we could, at any rate, have got the gold back from London by paying approximately 2,790 marks. I do not know but that there is great danger in the Reichsbank unconditionally raising the obligatory price at which it must buy gold, without limitation of amount, to 2,790 marks per kilogram; times might occur when it would be so flooded with gold that it would have too much of it. Gentlemen, this sounds very singular; but, believe me, times will change, and times may come when we shall not find it comfortable to have too great amounts of gold stacked up unproductive in the Reichsbank.

Gentlemen, it has already been mentioned here that conditions have changed immensely since the commission of inquiry was called into session. I assent fully here to the acknowledgment made by Herr Müller of Fulda to the direktorium of the Reichsbank. I do not know, indeed, how its concerns could have been better managed. But,

gentlemen, I can not share a view which has been expressed here; if, namely, you believe that we owe this change in the money market here to the beginning of an economic improvement, then you are, unfortunately, upon an altogether false track. [“Quite right.”]

According to my observation, our present great abundance of money—and I may reveal the fact that there are private banks that are rolling in money far more even than the Reichsbank—is, unfortunately, a sign of the most general stagnation. [“Quite right.”] And we may not, therefore, draw the conclusion that it was due to the measures adopted by the Reichsbank that its condition was improved, but that its condition was vastly eased by this situation, which I willingly acknowledge has, after the recent high rates of interest, its very good side, but has also a very deplorable side, namely, that it is the sign of an economic standstill.

And now I come to the question of private discount. And here, gentlemen, I can not at all agree with the views that have been advanced here in various quarters. First of all—again I must mention that unfortunately Herr Gamp is not present—I would say to him that it is just as he remarked: In London, and not only in Paris, the conditions are really altogether different; the Bank of England can not be compared offhand with our Reichsbank. The point was brought up here that there is a great difference between the London bank discount rate and the Reichsbank discount rate. And why is that? Because the Bank of England reserves to itself, in fact, the right to discount or not to discount, a system not practiced with

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us by the Reichsbank. If the quality of the bill satisfies the Reichsbank, it takes any amount that is sent to it, at the official rate. This is a wonderful safety valve for traffic in general; not only for the banks, but for all the patrons of the Reichsbank. The Bank of England, on the contrary, thinks nothing of simply announcing *urbi et orbe*: We discount only £100,000 to-day, no more; we have no need of bills. And I can tell you, gentlemen, that there were days during the last crisis in England that looked far blacker than was the case here with our higher Reichsbank discount rate. But the existence of a private discount rate is necessary here for the Reichsbank; for, gentlemen, the number of bills discounted in a business world such as that of Germany is infinitely greater in private transactions than the number finally discounted by the Reichsbank. How could the Reichsbank prevent other people, who have money in abundance, who must buy bills, who have commissions for bills, from discounting at lower rates than it does itself? I see no misfortune in that. All of us—commerce as well; I should like to bring this out particularly—have the greatest interest in having low discount rates. [“Quite right!”] We, just as well as industry, just as well as agriculture, feel easy only when low discount rates prevail; but there must, of course, be no low rates artificially fixed by the Reichsbank. [“Quite right!”]

The Reichsbank must take all possible factors into consideration in regulating the rate of discount; it must not only prevent the outflow of gold, but it must fix its eyes upon every possible thing, the home market above all,

and one of its chief duties is to regulate all this by means of its discount policy. If, then, occasions arise when it raises the discount rate, there is nothing cruel about that; it is simply a correcting of conditions which have arisen, and the Reichsbank is exceedingly glad when the eagerness for private discount increases, for it is then so much the better able to lower its discount rate. The private discount rate can not fail, in any case, at least to furnish a criterion by which it may regulate its policy, and I can not see whom the lower private discount rate would harm; on the contrary, the gentlemen here all ask for low interest rates; if the Reichsbank is not in a position to reduce its rate as much as they would like, they ought to be glad that other people are satisfied with a lower discount rate.

Besides that, gentlemen—and I wish to lay special stress upon this point—our exchange rates would be put up all round if bills for foreign countries could always only be discounted at the Reichsbank's discount rates. We need for the maintenance of our foreign trade our exchanges—that is, an unconditional gold standard first and foremost, but secondly a rate of interest also which shall not be too high in comparison with London; for otherwise the pound-sterling bill will always be worth so much more than the Reichsbank bill, and our exchanges abroad would, therefore be entirely ruined if the foreign bank bills could be discounted only at the Reichsbank discount rate and not at a lower private rate.

I wish, furthermore, to tell Herr Raab that he is, fortunately, greatly mistaken if he thinks that the German Reichsbank has the highest discount rates in the world;

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those were his words. The world is bigger than that, and, to set you at rest, I can say that the entire North and many countries in the South have a very much higher discount rate than the Reichsbank.

In regard to the premium policy, I need say nothing further, since it has, as far as I can make out, been dropped on all sides. Since we have heard what hopes and expectations Doctor Arendt attaches to the premium policy, no one who wishes to maintain the gold standard will want to hear anything more about that policy.

I may close my remarks by saying that not only agriculture, not only industry, but commerce, too, has the greatest interest in seeing low rates of interest; but besides that, in having a free path for its traffic, otherwise it will not be able to fulfill its great task of increasing and toning up the balance of payments. ["Bravo!"]

The CHAIRMAN. I close the session for to-day, and ask the gentlemen to be present again to-morrow at 10 o'clock.

(Close of session, 4.17 p. m.)

TUESDAY, *October 13, 1908—10 a. m.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN, President of the Reichsbank direktorium. Gentlemen, we continue our debates upon Question III. At the outset I must inform you that Herr Kaempf has just telegraphed to me that he is, to his regret, prevented by illness from appearing here to-day.

Then I would, on my own account, make a brief remark. I noticed in the speeches delivered yesterday by Herr Kaempf and Herr Schinckel that a remark that I made yesterday was not understood as I should wish it to be. I had a sort of feeling as if there were danger of my falling into the odor of economic backwardness. And I am concerned to save my honored teacher, Geheimrat Wagner, the feeling of having to blush for me. [Laughter.]

I observed yesterday, gentlemen, that the Reichsbank must endeavor to strengthen its gold holdings; that to this end it must take advantage precisely of those times when there is a favorable balance of payments; and that we may at least hope, in this way, by utilizing the prosperous times to raise the level, too, of our stock of gold, permanently it may be, or for a long period. In that connection I remarked incidentally that I did not share the opinion of those who maintain that this is of no avail, since gold can be paid for only with gold; that, on the contrary, I am convinced that gold could be paid for, in seasons at least when there is a favorable balance of payments,

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like any other goods, with other values, particularly bank notes; and that I cherished the hope that this gold may remain permanently, either wholly or in part, in the Reichsbank. Gentlemen, my only object in this utterance was to enter a brief protest against the idea—an idea not infrequently put forward—that gold can be purchased only with gold and that, under all circumstances, be it immediately or very soon, exactly as much gold will have to be given out as has been taken in. I believe, too, that Herr Schinckel and Herr Kaempf will agree with me in the rejection of this idea. I coincide, of course, with both the gentlemen in the view that any deficit in our balance of payments can in the end be paid off only with gold or gold values; likewise that these purchased items of gold constitute a part of our balance of payments; and that, finally, all the goods that we obtain from abroad must ultimately be paid for in gold or gold values. But I am also of the opinion that by this direct purchase of gold the Reichsbank is much more certain to bring about the result that this part of the credit balance of our balance of trade will really flow to the Reichsbank in gold, and remain there for a long period, than would be the case if the Reichsbank were to put its hands in its lap and rely upon this favorable excess of our gross balance of payments to get itself paid off anyway in actual gold, flow into Germany, and, finally stream into the Reichsbank also. [“Quite right.”]

For, gentlemen, it is by no means certain that the total credit balance of the gross balance of payments, even when it is paid in gold, flows undiminished into the Reichsbank and remains there; and I am just as little

certain that if the Reichsbank does not on its part lay hold from the start of that credit balance by means of gold purchases and gold imports, this credit balance would be squared in gold and not perhaps in other asset items, to the creation of which precisely the excess credit balance remaining might perhaps give occasion.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, yesterday I pointed out how private discount rates in Berlin, London, and Paris are subject to considerable fluctuations. I spoke, in that connection, of one year. It turns out, however, that it is a question of 1,512 days. Now, in the compilation which I have made, and which will appear in the stenographic report, these 1,512 days are not to be found everywhere, and the reason of this is, in part, as I have been informed, that the number of exchange days is not the same in all the different exchanges. Particularly in England there were evidently a considerably smaller number of exchange days than in Berlin.

I would, further, request the chairman to let us have an itemized statement regarding the foreign papers that were placed on the market in the past few years, from 1900 to 1907, in order that we may investigate whether the view is correct that the loans in question were in general such as had already been introduced, so that there was an absolute necessity for the flotation. I do not, of course, wish to enter into the matter at all; but I regard the clearing up of this point as desirable in the general interest.

I would request in addition—I think that by consulting the Bourse Commissioners it will be possible—

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that the amount of foreign papers that actually reached the Bourse be ascertained as accurately as may be. In the case of stocks and industrial securities, etc., it will indeed be possible to say that they were taken up in Germany to their full amount, if these papers were not simultaneously introduced at other exchanges. In the case of other securities it might be necessary and proper in making the estimates to consult the respective experts of the *Frankfurter Zeitung* and the *Deutscher Ökonomist*.

I would, besides, call attention to the fact that in these estimates, notably last year, very material discrepancies are found. While the *Frankfurter Zeitung* arrives at an estimate of 1,843 millions, the *Deutscher Ökonomist* makes it 2,135; nearly 300,000,000 more. Therefore I would request that here, too, an attempt be made to clear up the discrepancy.

Mr. SCHINCKEL. Perhaps I may be permitted to make a personal remark. As I understand them, I can but assent to the observations of our esteemed president in every respect. I, too, regard it as extremely desirable that the Reichsbank should secure as much gold as it can by any reasonable means draw to itself.

Doctor RIESSER. With His Excellency's permission I would supplement my necessarily brief remarks of yesterday, spoken from a literary standpoint, upon the question of foreign loans—for a road to agreement should be sought, and may, I think, as to this point very possibly be found—by a few more detailed observations. We can not settle the exceedingly great balance of lia-

bilities which remain to us in our exchange of goods with foreign countries by consignments of specie (instead of by interest and dividends on foreign securities or by disposal of the latter). The mere attempt would cost us dear and would lead to serious disturbances of the money market—under certain circumstances to crises—and might very greatly imperil the status of our currency and credit. We require, therefore, suitable foreign securities, and these such as are payable in gold, if only on this account; but we need them also with a view to financial mobility and as a necessary means of squaring accounts in case of the withdrawal of considerable foreign credits. We require foreign securities, furthermore, to enable us to draw gold from abroad to satisfy such exceptionally pressing demands for credit as arise, especially in the first days succeeding the outbreak of a war or a crisis, as well as to cover the intense demand for specie, which is very apt to make itself felt at such times owing to the temporary weakening of confidence in substitutes for gold. Finally, we require them in order that, being in possession of such international values redeemable at various bourses, we may be covered and insured against the losses in domestic values that are to be expected in warlike times, and against the ensuing weakness or overstocking of the domestic bourses. Lastly, we must not forget what important services and political results have been made possible by permitting or refusing to permit the listing of foreign loans, and this by no means by us alone. We know to what an extent the recommendation or the prohibition

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of flotations or of the advancing of money on foreign papers—recommendations and prohibitions which need not, indeed, be *expressly* stated—may be utilized for political purposes by the Government, notably at times when the State concerned may be injured by the direct or indirect refusal of the flotation of its loans. I have before remarked that in *this* sense “the political outpost engagements are fought upon the economic field;” that is, the character and direction of these outpost engagements, their time of occurrence, and their objects are naturally to be determined exclusively by our public policy.

At all events, the question that has been raised, whether the flotation of foreign papers—and that to an extent, too, which shall more than cover the sum required for an excess of imports—is economically correct, can be answered affirmatively only as a matter of principle; and, for the reasons indicated, it can be proved to be correct only as a matter of principle. In every individual case—I emphatically grant this to Baron von Gamp—the first thing to be demanded, on the strength of our experiences of years, and especially in the eighties, will be that upon the selection of these papers the requisite care shall be expended—

Freiherr VON GAMP. Quite right.

Doctor RIESSER. And that a careful discrimination be exercised in regard to these foreign securities.

Freiherr VON GAMP. Quite right.

Doctor RIESSER. Furthermore, on the strength of our experiences we ought, in my judgment, in the end to

take only such countries into consideration as possess a rich and extensive *hinterland*, or some other strong reserves in the shape of good colonies or large provinces which may be utilized; countries, therefore, which are in a position easily to bear and readily to overcome even bad times. These are the results of the experiences we have gone through, but which we had to go through first in just the same way as foreign countries, notably England and France, had to do on a much more extensive scale. Besides, the time of the flotation—and this is likewise an idea in which Freiherr von Gamp will concur, but one that I expressed as far back as three years ago, in the year 1905—as well as the amount of the flotation and the *rate of interest* must be determined by taking all the elements concerned into consideration; for instance, the financial condition, at the moment, of the country and of the home market. Finally, I admit, in so far as the fulfillment of obligations already entered into is not in question—how the matter stood in this respect you will never be able to ascertain from the statistics or from the examination of the State Commissioners—that in periods of great expansion of business *moderation* must be observed in the interest of our balance of payments, as well as to support the measures of the Reichsbank in regard to the flotation of foreign securities and the giving of long-time credits abroad. Nor do I by any means wish to deny that many mistakes were made in this respect, because I hold, in general, that it is exceedingly foolish to disown past blunders; and that no mistakes will be made in the future, that, I think, can not be believed or assured.

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I am, on the contrary, convinced that even if other bank directors, who may be of an entirely different economic bent, had been at the head of the German banks, mistakes would likewise have been made; but we must strive to learn from our experiences. With these limitations, however—which I fully admit and which I have myself made heretofore—I agree with Herr Schmoller in the conviction that Germany, if it wishes to maintain and strengthen its consequence in the world market, must increase its outside capital and can not diminish it.

I am deeply thankful that I have been permitted by your great consideration and that of the chairman to supplement my remarks in this manner.

Freiherr VON GAMP-MASSAUNEN. I agree essentially with the remarks of the foregoing speaker; they correspond with what I urged years ago, particularly in Parliament. The examination will inform us whether the papers concerned are really such as would be likely to be serviceable in relieving our domestic money market in difficult times—in times of crisis and of war. But I do not believe that the Siamese loan can be reckoned among these.

A VOICE: Precisely; that has a French market.

Freiherr VON GAMP-MASSAUNEN. Certainly; I am aware of it; but I do not think that in case of war France will be inclined to take that loan from us.

I feel convinced, therefore, that in this domain we shall come to an understanding with Herr Geheimrat Riesser who, indeed, in the main supported the warnings that I gave. Only we are perhaps not quite agreed as to whether importation in the past has given rise to such serious

troubles as I think. But we both doubtless agree that it is the object of this commission to do its best that we shall in future have no further bad experiences.

Royal Saxon Geheimer Regierungsrat STEGLICH. Honored sirs: Freiherr von Gamp desires additional information beyond the statistics kindly submitted to us yesterday by the president of the Reichsbank in regard to the introduction of foreign issues in the domestic bourses; as to what part of these issues actually came to the domestic bourses and how much remained in the country. Herr von Gamp finds that there is a difference in the two sets of statistics taken from the *Frankfurter Zeitung* and the *Deutscher Ökonomist*, which he would like to have cleared up, and he believes he can obtain the desired knowledge through the state commissioners at the German bourses. As I am a commissioner at a German bourse, I am in a position to give information to this extent—that as much as it is possible to learn at the bourses has been ascertained annually for a number of years past through the medium of the state commissioners at the bourses; this is communicated to the imperial statistical bureau and appears annually in its publications. What is thus recorded is of course only those amounts for which the right of listing and of being dealt in is granted at the offices of the several bourses. These figures may be found in the publications of the statistical bureau of the Empire. But beyond this, to determine how much of these sums actually came to the different banks and was disposed of, that question the bourse commissioners will not be able to answer. Neither do I believe that such further enlighten-

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ment can be obtained through the medium of the heads of the bourses. For it is, as a matter of course, a secret with the different flotation firms how much of the securities that they proposed to introduce proved actually to be salable in this country. For that matter, even if the banks that introduce such foreign securities wished to divulge their secrets they would for the most part not be able at all to determine how much of the securities sold actually remained in the country. Gentlemen, these threads are not so simple for the statistical bureau either, and not even for the Reichsbank, that they may be unraveled offhand. At any rate we can not hope for further enlightenment in this direction from the Bourse commissioners.

The CHAIRMAN. I for my part understood Freiherr von Gamp to say that he wished to be enlightened first as to the gold loans actually floated in this country—that is, the separate loans that were regularly offered; secondly, he desires a statement as to the amount of the foreign securities admitted into Germany, though not regularly offered, which actually remained in the country. The last can naturally not be expressed by definite statistical figures; it rests only upon estimates. The first figures we shall, I hope, be able to procure; for the second we are unable to furnish definite material. In the publications of the *Frankfurter Zeitung* and of the *Deutscher Ökonomist*, however, data for estimating the separate loans are to be found, which we, too, shall presumably be able to obtain; but beyond that I can not, I believe, furnish any material.

Freiherr VON GAMP-MASSAUNEN. I thank the chairman for his remarks. They meet the wishes to which I have

given expression here. I have myself spoken with the bourse commissioner of this place about the foreign flotations, and he said to me: "It is assumed in banking circles that about so and so many millions have remained in Germany." And I do not at all see why the banks should not wish to tell this; and if they do not wish to tell it, well, inferences will be drawn from their action. But if the *Frankfurter Zeitung* and the *Deutscher Ökonomist* undertake such estimates, I can not regard the bourse commissioners, as such, unsuited to undertake such estimates likewise. They are in the very center of business, and they should be in the center of business. I believe, therefore, that the preceding speaker has somewhat underrated the capacity of the bourse commissioners in this respect.

Doctor RIESSER. I would only remark that the *Frankfurter Zeitung* and the *Deutscher Ökonomist* never made comprehensive statistical estimates of the amount that really remained in Germany.

Freiherr VON GAMP. Oh, yes.

Doctor RIESSER. There can be question only of isolated and surely by no means of exhaustive attempts; for neither the *Frankfurter Zeitung* nor the *Deutscher Ökonomist* nor the banks themselves, even if they wished to do it, would find it possible.

Freiherr VON GAMP-MASSAUNEN. Besides the Reichsbank, the Prussian Ministry of Commerce would also have to be taken into account.

The CHAIRMAN. Herr Assessor Fastenau has the floor. He wishes to make a correction in the extensive and admirable report which he submitted to us.

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Doctor FASTENAU. I should like to call attention to the fact that in the printed compilation of opinions, on page 118, alongside of the note "page 247," a misprint has slipped in. We find there:

"It is by no means true that all professionals are agreed that the acceptance of interest-bearing deposits is a proper business for the Reichsbank."

As appears from the meaning of the subsequent remarks, this should read "*not* a proper business."

Freiherr VON WANGENHEIM. Gentlemen, I should like to take advantage of the opportunity afforded by Assessor Fastenau's correction of probably the only error that he made in his compilation, to express to him, with the approval of all of you, I am sure, our best thanks ["quite right"] for the pains he has taken in editing the opinions. I believe that it was only through this work that we were all enabled to master the vast amount of material laid before us; and every one who has once engaged in such work will know what it means to make such a compilation. [Applause.]

The CHAIRMAN. Gentlemen, we proceed, then, with our yesterday's list of speakers, and I give Herr Geheimrat Wagner the floor.

Doctor WAGNER. Gentlemen, what I have to say will bear directly upon the remarks that were made yesterday and that have since been repeatedly reverted to in our debate. We must undoubtedly agree with yesterday's speakers in the opinion that the investment of a certain amount of Germany's capital in foreign countries is not only expedient but to a certain extent necessary, for our

entire economic situation. Some considerations remain, nevertheless, and these considerations have, in my judgment, been too little touched upon, hitherto, in the debates. In the first place, the consideration that, as the history of the flotations shows, even in the case of such as were issued by the leading banks, the losses sustained on many of these papers were enormous. It is true that the flotation firms, when heavy declines occurred in consequence of the debtor's suspension of payments, postponements, and other such causes, would say later on for the comfort of their respective shareholders: "We hold none of that paper." But all the more did such papers remain in the hands of those who had bought the papers and to whom they had been recommended; I could exemplify this by the Portuguese, the earlier Argentine loans, and many more. In this question we must consider that even if subsequently a rise in the market value of these papers may have occurred which balanced the losses, those, nevertheless, who purchased them at a high rate reaped no benefit from this, because—and the smaller and moderate capitalists can not act otherwise—they did not retain them permanently but sold them when the price was low. This is certainly a very important point and must form an essential consideration in the whole question.

But beyond this—and here also I agree with Freiherr von Gamp—the main thing after all is in fact the particular time of a flotation or introduction of foreign papers; if the money market is already depressed, such flotations in favor of foreign countries may render our situation still worse. All in all, we must not deceive ourselves in

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this: Had we not admitted those loans in such great quantities we should have a lower rate of interest throughout Germany, and that would be advantageous to our domestic loans, the market prices of which, in spite of all the little encouragements of recent years, have remained very low or sunk even lower. This is a point which must likewise be taken into account. From the tables in the *Frankfurter Zeitung* and the *Deutscher Ökonomist* which were communicated to us, I, too, at least, gather that it is doubtful whether the times of such flotations in favor of foreign countries were judiciously chosen in recent years. And I would add in this connection: There can, in my judgment, unquestionably be no difference of opinion upon this, that even the most soundly managed great central bank—and doubtless our German one must be counted as such; it is perhaps the best of all—is not in a position to determine permanently the rate of interest and also the discount rate, and to permanently exercise—I expressly say permanently—an authoritative and decisive influence upon the inflow and outflow of gold. That depends upon other elements; upon the balance of trade, upon the balance of payments, doubtless also upon a number of the considerations repeatedly brought up yesterday, and, finally, upon the creation and exportation of actual material capital. But even here at particular times such a bank may nevertheless exert a degree of influence, and here, in my opinion, comes in the point that it is precisely the amount of the stock of gold of such banks that constitutes one of the decisive factors. One of our members, it is true, observed

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in yesterday's debate that the Reichsbank does not, in fact, regulate its discount rate according to its cash and its stock of gold. That may be the case at particular times, but on the whole and in general it can not help taking them into account. Now, we can not really deny—although the statistical data do not, unfortunately, furnish quite positive proof for every period—that our Reichsbank was in the class of those great banks that were worst placed as regards their stock of gold.

I have just referred to the fact that the statistical material is not sufficient for a strict proof. I would on this occasion bring out a point once more that has already been discussed here: I really do not see why we still always keep something secret here and do not, like other great banks—the banks of Austria and France, for example—give in the weekly statements the amounts of cash in gold, silver, and fractional currency separately. That this was not done in the beginning of the currency reform, thirty or twenty years ago, may have had its good reasons; as regards the present, I believe, these reasons have disappeared. We shall not thereby reassure foreign countries in any way; they will, perhaps, often rather judge the situation to be worse than it is. It must, indeed, be clear to us that for the covering of the liabilities of the Reichsbank, since we stand and insist upon the gold standard, gold only is to be considered; fictitious values like our bad silver money—now the talers are also called in, and the new silver money is worse yet by 10 per cent—which for the most part represents only credit money, may be used, indeed, for

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calculations of the note-contingent, but as cash covering for the actual liabilities to be really taken into account these sums must be excluded. We must know what the exact amount of the stock of gold is. I have frequently heard that hesitation is still felt as to imparting this information regularly. But it is given anyway in the yearly balance sheet. For the rest, what we know shows us that if we fix our attention not upon a single year but upon a longer period, we can not deny that the banks in Germany have, on the whole, received comparatively little gold; the Reichsbank has a disproportionately small share in the new-found store of the precious metal. On the strength of a series of investigations, which I can not now communicate here in detail but to which I may refer because they really form the basis of my computations—they are contained in a work of some size, upon money and monetary affairs, which I am writing and which will, I hope, make its appearance in the course of this winter—I have reached the following definite conclusions: Taking into consideration the period since the great increase in the new production of gold began—and that was in the nineties—that is, the period from 1890-91 to 1905-6, and so far as possible including 1907, I get this result: In round numbers—and they alone can be considered; they are, in my opinion, more correct, too, than exact itemized figures—about 5,500,000 kilograms of gold were produced in the whole world; by 1907 the amount had risen to about 6,500,000. The first number represents a value of about 15,500,000,000 marks, the second about 18,200,000,000. Now, how

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much of this great quantity of gold did we in Germany obtain? We do not, to be sure, know exactly what amount is found in the channels of trade; probably it is considerably smaller than we have hitherto assumed, even if not to the extent that some pessimists suppose. What we do know, however, is the condition of the banks, and that is the very thing to be considered. Now, it appears that in the Reichsbank's stock of gold almost no increase took place from the beginning of the nineties up to the very latest increase in the course of the year 1908. We had, in round numbers, 500,000,000 marks in gold at the end of 1890, and we had no more at the close of last year; in the interval greater sums were, of course, on hand at times but a considerable and lasting increase of gold holdings did not take place. Next worst—and yet considerably better—is the position of the Bank of England; it rose lately—here, likewise, I do not include the latest increase in the year 1908; I generally close with 1907—from not quite 500,000,000 marks in 1890 to 660,000,000. As compared with this take other great banks and similar institutions—why, the Bank of France in the same period raised its stock of gold in hand from about 900,000,000 marks in German money to 2,200,000,000 marks, in round numbers—although it, too, had somewhat less at the close of 1907—that is, some time previous—thus more than doubling its stock. [Hear! hear!] In the case of the American bank system, in so far as their ready money is visible, the amount rose from about 2,000,000,000 marks to about 4,500,000,000, probably even somewhat higher. The Austro-Hungarian Bank

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had not as much as 100,000,000 marks in gold in the year 1890; at the close of last year it had over 900,000,000 in gold. The Russian Imperial Rente Department and Imperial Bank still greatly increased their stock of gold from 1890 to 1895, namely, from 900,000,000 to 2,300,000,000 marks; after that it was diminished, through the absorption of gold in general business, by 600,000,000. But in spite of the Japanese war and all that it entailed, their gold supply has on the whole again risen greatly—namely, to between 2,300,000,000 and 2,500,000,000 marks—that is, it has again become as great, and even greater, than ever before.

If we sum up all this, we find that these great banks and bank systems received, between 1890 and 1902, about 2,500,000 kilograms of gold, say 7,000,000,000 marks, and wind up now with over 12,000,000,000 marks in gold—that is, with about 4,300,000 kilograms. In this improvement the German Reichsbank has no share whatever. Well, this is certainly something to think about; if in a period of the most gigantic augmentation of gold through new production known to history, a period in which the increase is still continuing to progress, the Reichsbank has not permanently augmented its gold supply, or could not augment it, we can see what a difficult position we are in. We must reckon with these facts.

And there is still another circumstance; and this brings me to the point to which Director Ströll referred yesterday; I agree with him in one respect, and differ, of course, in another. Of the newly acquired gold, a certain amount is taken away, for a longer or shorter time—let us say, pro-

visionally, for an indefinite time—for industrial purposes. This is used up for plate and ornamental objects, etc.—put into shapes, therefore, which for monetary purposes do not enter into direct consideration. This, too, at all events—and here I agree with Director Ströll—is a very interesting result of our inquiry, that, according to all that we have heard—at least in Germany, to begin with—the actual consumption of gold in industry has hitherto been materially underestimated.

We are for the present surely not sufficiently informed. Whether the data in regard to the German gold industry which the gentlemen have given are quite correct, remains to be seen. Comprehensive data are lacking for Germany; very correct ones can, perhaps, not be obtained at all; and how the matter stands in the rest of the world we know still less. One of the experts mentioned in the inquiry that in other countries the increase of gold consumption for industrial purposes had not been as great. Now, we do not know this for a certainty. At any rate, if we assume that the consumption in the German gold industry is so and so much greater than was before supposed, that it is perhaps twice or three times as great, and that we have of late annually used 100,000,000 marks (equal to between 30,000 and 40,000 kilograms) more gold for industrial objects; if, furthermore, great sums in the other portions of the world are to be likewise reckoned with, this important result follows: Even in the present period of gold plethora the sums that remain for monetary purposes, after industrial utilization, are not as great as has long been supposed. They are still gigantic when compared

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to a time not long past, but yet much smaller than has hitherto been estimated. In the eighties it once came to the point—owing perhaps to the too low estimate made even then of the amount of industrial consumption—that at least half of the gold supply was secured by industry and only a scant half remained for monetary purposes. The estimates of the present period show that of the late great production about 20 per cent—in some years perhaps 30 per cent—was used in recent years for industrial purposes. Whether this will not now have to be increased is a question which, in my opinion, decidedly requires to be considered. If we find that Germany's share alone amounted to between 30,000 and 40,000 kilograms annually, we must reckon for the whole world perhaps 150,000 kilograms, possibly even more; as much, may be, as 200,000 kilograms; there would then remain at present, quite aside from the great gold production still ephemerally maintained, only about 300,000 kilograms for monetary purposes. How things will go hereafter depends, of course, upon the future of gold production; but it depends also, on the other hand, upon the further increase of the industrial use of gold.

Now this brings us to the further question which has been raised by Director Ströll: Can we not interpose obstacles to hinder the industrial users of gold at least from melting our gold coins? To this I must answer decidedly "No." It is of the essence of our monetary system, based as it is upon the precious metals, and now upon gold alone, that we take a material of high specific value as a basis—formerly it was both metals, now it is gold alone, which,

according to modern views is specially adapted for it—and that this gold serves at the same time for purposes of ornamentation and display. This ancient connection is important, too, and is significant for the determination of the value, for the steadiness of the value, of silver. If the use of silver in industry had risen as much as that of gold, we should assuredly not have had the heavy decline in the relative price of silver that recent times have exhibited, namely, from 1 to 15½ or 16 to 1 to 35 or 40. This free use of coined gold in industry must remain as it is. He who does not want it places himself, in my judgment, on the basis of a chimera, of money without intrinsic value, that wholly untenable assumption to which the doctrine of my Strassburg colleague, Knapp, is finally reducible. That we can not do. We must adhere to money of intrinsic value—to gold, then, according to our assumption; and the industrial use of it, even of minted gold, we can not prevent.

But the measure that has been proposed by Director Ströll would also, in my judgment, be fundamentally inapplicable; firstly, on account of our present views of economics and of economic jurisprudence; and, secondly, because it would do no good whatever, perhaps even do harm. It is proposed that limitations be imposed upon the employment of coined gold for industrial uses. Well, as my colleague Lexis pointed out quite justly yesterday, this is in the direction of the old policy, practiced in the middle ages and also in later times, of preventing the outflow and melting of gold; and it would lead perhaps to still other measures—to the old plan, it may be, that the state shall have a

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monopoly of the purchase of gold. This in our present circumstances—we certainly do not wish to deceive ourselves on this point—can no longer in any way form a subject for consideration. It would mean a totally different organization, not only of national production but of the whole of our international trade; it can not be thought of now. It is, I should say, somewhat similar to the idea of the realization of perpetual peace. [“Quite right.”]

But furthermore: Could we expect to be successful with such measures, and how is the thing to be carried out? The only way would be—and this was the policy partially practiced in the middle ages—to exact a heavy seigniorage on gold and to lay this charge on each coin, i. e., in other words, we take away from the coin part of its standard quantity of gold and thus make it a sort of token coin. But then our monetary standard of full-weight coinage would be abandoned, and that really will not do. And besides this, the thing would not be a success. If we were to repeat to-day the prohibition to melt gold coins, say, or even if we should make it difficult to use newly coined and unquestionably full-weight gold coins for industrial purposes, what, in the best case, would be the consequence from the standpoint of those who support this idea? That industry would then compete in the gold market and thereby perhaps raise the price of gold. That was what really often happened in the policy of the middle ages and later periods; the gold industry was, for example, forbidden—that is, goldsmiths and silversmiths were forbidden—to give a higher price for gold bars than did the management of the mint. The result with us, however, would

be that actually a higher price than that given by the mint would be offered by the manufactories working in gold, and that, consequently, the buying of gold would be more difficult for the German Empire and for the Reichsbank which practically represents it in this field.

In short, I believe that the existing state of things can not be changed. We must simply reckon with conditions as they are.

Now, what, in my judgment, really follows from all that I have permitted myself to say is this: We certainly must—I beg you not to misunderstand me—for a practically unlimited time, for generations to come, continue with the monetary standard and the coinage policy that we have hitherto had; we must strive to maintain the gold standard. But the phenomena of recent times, the insignificant participation of Germany, and of its Bank as well, in the acquisition of the new gold possessions of the world, the great consumption of gold by industry, particularly German industry, show us that conditions, though more favorable in degree, are not so entirely different in principle from those that prevailed when our great Imperial Chancellor uttered those well-known words, which have become classical, that it seemed to him that the gold blanket was not broad enough to cover everybody. It is now broader, but not as broad as optimists often assume. We are, therefore, really facing the same question that came up twenty-five years ago, particularly if a diminution should chance to occur again in the production of gold—and I think that this, too, will have to be reckoned with, at least in the course of a few

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decades—the question whether the world can persist in allowing gold to be the one sole standard metal; whether even the present immense gold production yields sufficient gold for that. This is, at any rate, actually a consequence of our having deprived silver of its quality as standard money. We undoubtedly allowed ourselves here in Germany to be too greatly influenced by the belief that the relative value of gold and silver would remain somewhat the same as it was in the first half of the nineteenth century; but it has become entirely different, and this has had a great influence upon the condition of our currency affairs. And this condition acts, in turn, upon the Reichsbank. We have now that vast quantity of bad silver money—5-mark pieces which are worth only about 2 marks; the newly coined 3-mark pieces, which, in spite of their pretty appearance, are not worth $1\frac{1}{2}$ marks; 1-mark pieces which are worth only 40 pfennigs. Practical men who have discussed this question always say that this does not matter at all. Now, we continue to have the provision that silver coins of the realm are exchangeable for gold on demand, and we must retain it. Have we gold for them? Not a penny, separately. Everything is always based upon the presumption that all will remain calm and peaceful. Gentlemen, I believe there is here a very weak point in our coinage regulations that concerns our bank management; it can not even now, and most assuredly not in critical times, count upon the amount of gold required to redeem the silver money and the treasury notes, and yet it should be able to count upon it, since crises may easily occur. I do not know whether any of the

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other gentlemen have experienced anything of the sort; most of them have the good fortune to be considerably younger than I am. But when I was a young man, in Vienna in 1859, I went through an experience that I will tell you about. After long years of waiting, more silver money was at length again seen in the channels of business, and the Austrians, in their peculiar way, their light, somewhat airy manner, thought it was "hard" to carry about this silver; and when the panic occurred upon the outbreak of the Italian war, the depreciation of paper money was so great that while in January, 1859, or the end of December, 1858, paper and silver were on a par, paper fell to 67 at the time of Solferino and silver rose to 150. [Hear! Hear!]

We are in a position where we, too, must reckon upon the possibility of developments of essentially this kind, with our difficult political relations, which are consequent upon the mere fact of our geographical situation, and are naturally brought about by the entire political development of our country. In short, these investigations concerning gold lead to this conclusion: We must apply more caution and care in regard to the increase of our stock of gold if we believe absolutely that we must adhere to gold alone as the standard metal, which I do not wish further to dispute.

But now the question arises: How shall we acquire a greater share of the world's gold, more particularly of the gold newly produced? Here, too, I can only say: Ultimately, only through a better balance of trade and a better total balance of payments. Yesterday one of the

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gentlemen pointed out in this connection that we ought, precisely on that account, to put no difficulties in the way of bourse transactions. I am not prepared to accept this at once; but I would, on the other hand, say something in favor of the commercial policy that has so often been attacked by that side. How would it be if the Social-Democratic and Liberal voices had carried the day and agricultural duties had not been introduced and raised? Now, aside from the point that our financial condition would in consequence be much more disconsolate still than it now is, without the revenue from those duties which we positively can not spare, the result would have been that we should have had a much greater importation still of grain, meat, oils and fats, and such like, and, in so far, a still more unfavorable balance in that respect, since in that case the German grain culture would probably have greatly fallen off. Whether we should have been able to equalize this by an even more forced export of manufactures and whether our position as regards the provision of gold would not have become even far worse, I shall not particularly discuss. My answer would be in the affirmative. For we should then, like England, have had to procure far greater quantities of grain from abroad instead of drawing, as we do now, upon foreign countries for less than a third of the wheat and less than a tenth of the rye that we need; and if we could not increase our exports of manufactures to a still greater extent, we should have had to use other means of payment, probably gold also. I believe, therefore, that the situation would in that case have been far more precarious still.

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For the rest, we can not enter here into all these great questions of commercial policy; we shall accept this policy as it is at present.

Now, we rightly concern ourselves with the question of further measures, to a certain extent of small measures. Here I can only say: I agree essentially with what the practical business men have stated. It is, naturally, of no significance to a practical man for a theorist to say this. [Vigorous dissent.] On the other hand, it is at any rate interesting if we theorists agree with the practical men. Here I would first of all express the belief in regard to the acquisition of gold that the discount policy of the Bank is of essential importance in relation to it. In yesterday's debates the critical condition in the United States in the fall of 1907 was specially pointed out. But we have for several years back had considerably higher interest rates in the Reichsbank and a higher private discount rate than have prevailed in Western Europe. This certainly shows that this condition can not be traced to the period of 1907 and to the American crisis. Now it will be made a subject of complaint that the raising of the rate of discount by the Reichsbank has such a far-reaching effect upon our various industrial classes. I am not going to argue that there is no cause for complaint, but I can not see that there is any other remedy for this industrial situation than an adequate raising of the bank rate. In the matter of the monetary standard there is no use in looking around for remedies. It may be affirmed with reason that the first duty of the Bank is not that of granting credits, but of making sure that

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the credits it has taken are secure, or, in other words, of making the public have absolute faith that its notes will be redeemed at any moment, and redeemed in gold, and that all depositors can get gold for their deposits. To this end the Bank must adjust its discount policy. If it were to act in a light-minded manner, it would have to pay the penalty in one way or another.

The question arises as to whether we have not some other means at our command in the matter of the Bank's policy than this operation which we call applying the discount screws. I do not believe we have. In France, when the bills are being sorted with reference to the purposes of those who hand them in, a distinction is occasionally made with reference to whether or not the gold is wanted for export. Perhaps this will be done here also, every now and then. But whether this sort of thing is actually practicable, whether there are sufficient facts on which to base a conviction, whether it is wise or feasible in the existing state of our economic system to restrain the exportation of gold, these are questions in my opinion which, to say the least, require an answer.

There remains the oft-mentioned subject of a premium on gold. Here, too, I admit that I am altogether in accord with those who handle these matters in practice. I thought otherwise at one time, but that was a time when I was not yet unreservedly in favor of a gold standard, pure and simple, for Germany. If I stand by it now, I can not very well advocate a gold premium policy. Even a nominal premium on gold signifies conversely that bank

notes are below par. I do not see how there can be any doubt about it.

[Movement of approval.]

In France the state of things is different. There, in addition to the gold coins, there is a silver coin which is placed on a level with them as a tender, the 5-franc piece, still in circulation in large quantities. We have nothing of the sort and for good reasons. Therefore I am unalterably opposed to such a gold premium policy in the case of a straight-out gold standard, and I have nothing to add to what our practical men have said, and in my opinion with perfect soundness, in regard to this point.

From this I come naturally to the question of the buying up of foreign bills and the permanent investment in such bills on the part of the Reichsbank. In this matter the example of the Oesterreichische Bank has been adduced as a sound one and as an example that might be copied. I have been glad to see that we North Germans can once in a while make up our minds to take a lesson from Austria. As a rule, we act in such a manner as though Austria were bound to occupy a second place in such matters.

[Movement of disapproval.]

Never mind, gentlemen. There is many a thing that they have managed better in Austria than we have here, and particularly in what pertains to industrial and financial administration. This is due, perhaps, to the fact that in Austria everyone connected with the law is obliged to make a serious study of political economy. He has to

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stand an examination. There is no such thing here, and now that I have touched upon this point I shall take the liberty of digressing a little further. What I am going to relate took place some time ago here in Berlin. I have told the anecdote already more than once, but I am not afraid to tell it again. A student was asked at his examination for a government position: "What is the meaning of direct and indirect taxes?" He was absolutely unable to answer the question. [Laughter.] Well, older and more intelligent people are occasionally in the same fix. [Laughter.] My colleague, who was relating this occurrence to me, then asked me in an ironically jocular manner: "But can not a student learn this difference from your lectures?" "If he does not cut his lectures, he can easily learn it," was my reply. But here comes the funniest part. I thereupon asked my colleague: "But I hope you did not allow such an *ignoramus* to pass?" He replied: "Do you suppose I could be so cruel as to make him flunk?" [Laughter.] What I want to say, gentlemen, is that our officials need a better education; they ought to know more about matters pertaining to political economy, just as is the case in Austria.

(A voice: "And in South Germany, too.")

Doctor WAGNER. Yes, in South Germany, too—in Bavaria and Saxony, let us say. It is a fact that in this respect the rest of Germany has got the start of Prussia.

But let us return to our subject. Do we want the Reichsbank to invest in foreign bills along the lines that we see pursued in Austria? We do, but within proper

bounds. I am convinced that my esteemed colleague, Doctor Lexis, was right in insisting yesterday—I believe he was seconded by one of the members—that if the foreign bills are to be accounted part of the legal gold reserve against circulation the amount must be a very limited one.

[“Quite true!”]

The amount suggested was 50,000,000 marks, 60,000,000 crowns being the amount in Austria. This figure is, of course, a rather arbitrary one, but it may be about right. The thing can be done only on something like this scale or perhaps even a somewhat more modest one. Otherwise, if we were to introduce regularly the system of foreign-bill reserves in place of gold reserves two large banks could agree among themselves simply to exchange their stocks of domestic bills and to have no gold reserve left at all. The Germans could say: “We have Austrian bills;” and the Austrians, “We have German bills.” The end would be that we should be at a stage which we can hardly regard as very desirable. Consequently this laying in of foreign bills ought to be pretty well restricted.

We now come to the question of advances without interest for gold imports. These are practical questions, gentlemen, and if a mere theorist ventures to express his views about them he has to confess in advance that he can do this only “errors excepted.” I will say, however, that the scheme strikes me as a good one—I agree in this with President Havenstein—a better one than that of absolutely obliging the Reichsbank to buy gold, as is the case in England. The Bank of England is obliged to buy all the gold that is offered to it at a fixed price

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(£3 17s. 9d. for the standard ounce), paying for it in bank notes, which may immediately be exchanged for gold coin. To tell a bank "you must" at a certain fixed price—in the case of our bank, say 1,392 or 1,395 marks—that I regard, gentlemen, as going too far. The bank, on the contrary, ought be permitted to have a free hand in this matter. There may be a time, perhaps, when in order to meet the stress of a gold stringency it may even go above the coin price of 1,395 marks; but this is its own business, and it must be left to act according to its own discretion. It may be urged, perhaps, that this function ought not to be intrusted primarily to the Reichsbank, but to the imperial government, as such; say, to the bureau of coinage. But the fact is that the Reichsbank has once for all the function of regulating the currency and is more directly concerned with the operations relating to the gold supply than is the administration of the mint, and it is therefore more expedient that it be charged with the business in question. Of course, it must be ready to thrust a certain pecuniary interest of its own into the background. From what I can gather, the Reichsbank has itself held this view of the matter. The sums in question are indeed not so large as to play any rôle by the side of the regular profits of the Reichsbank.

The question is, Can we succeed through these secondary means in increasing the supply of gold, particularly in times of financial crisis? I believe that the answer will be that we probably can, but not in a very substantial measure. A much more effective means, it will be said, is to improve the balance of trade and the international

balance of payments. This is the fundamental task, and herein likewise I agree fully as a theorist with our men of practical affairs. This is about all that I have to say regarding the matter of gold importation.

In regard to the outflow of gold, the so-called premium policy has already come up for discussion in this body. I am one of those who are convinced that the scheme ought to be rejected. Otherwise, I believe, we should have to abide by the logical consequences and make a radical change in the matter of our monetary standard. But when we have once for all made the gold standard our own, when we have laid down a special principle of law—and I wish to express this in terms of a legal formula—that everybody has a right to dispose of a gold coin in the way he chooses (this being a logical inference from the premises), then we have no right to place any special obstacles in his way if he should happen to make up his mind to send his gold out of the country. We have to put up with this even if it should on some occasions injuriously affect the money market. This is also a logical consequence of a gold standard, pure and simple. And in this matter also we have uniformly had the experience that the world is round and that it rotates; the gold that goes out can just as easily come back to us. But this question is closely connected with another, one which I am not prepared to discuss at length just at the present moment. A word or two, however, can do no harm. We do not really know—the question has been repeatedly discussed—how much gold there is actually in circulation in this country. The estimates are altogether

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unreliable, including the one, it may be added, which is the basis of all other estimates—that published by the United States Mint. The figures of the United States Mint are considered especially trustworthy. Can you tell me why? The Americans have no means of knowing better than we ourselves. They give regularly the figures that are communicated by their legations in the various foreign countries. Well, where do their ambassadors get these figures? They have got to get their data first from others, and so they question the bankers, private bankers, and merchants. These, however, have very little trustworthy information on the subject. In short, the data regarding other countries, as well as those regarding Germany, are more or less conjectural. They may be perfectly accurate, or they may, for aught we know, depart as much as 10 per cent, or who can tell how many times 10 per cent, from the reality? Do you consider that it would be practicable to act on the suggestion of Herr von Gamp and undertake a census? Of course, if that were feasible, it is the very thing I myself should be in favor of doing. But whether it is feasible, that is the question. Can we really expect to get accurate and reliable information regarding the amount of gold coin each person has circulating in business? Of course, the managers of the public funds and the large banks, and perhaps also some intelligent business men and private individuals, will give correct returns, but how are we to go about it when it comes to the great mass of the people? They will at once, just as in similar matters, such, for example, as the interrogation with reference to tax assess-

ments and the like, suspect that there is something behind it. They will make no returns or else make false ones. There is no way of forcing people, and it would be impossible to devise a system of penalties for the purpose. Every statistician knows that in the matter of the statistics of population it can be shown—by reference, for example, to the church registers—that the ages of male persons are often reported too high, while females on an average are made to be younger than they are. Such a census of gold coins may therefore be characterized as a thing desirable in the abstract, but as something that is not practicable. The policy we ought to pursue becomes thereby all the more evident. Let us begin by reckoning upon a smaller total. It is not necessary to assume that there is as much as three and a half billions of gold in circulation. Let us take a smaller figure as a basis and adjust our whole monetary and banking arrangements accordingly. This may result in some hardship here and there, but in such matters it is better to exercise a little foresight than to be too easy-going on the supposition that our stock is so much larger. In any case it is well to recognize the fact that it is desirable to have a goodly share of gold circulating in the channels of business in order that we may have a large reserve for times of emergency.

And here we come to a question in regard to which I shall say but a few concluding words. If, as is the case, we drive our gold from circulation in times of peace by means of small paper money and banknotes of low denomination, just as we drive out our treasury notes with our inferior silver currency, there is no doubt in my judgment

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that we are diminishing these reserves altogether too much. It is a great mistake to allow this to take place on such a scale in peaceful times. We can not prevent gold from sometimes flowing for a while from the bank into the general circulation. There is a prejudice among the public, one which I believe is in a measure justified, against small paper money and banknotes of low denomination (in which I include only the 20-mark bills and not the 50-mark bills) in part for æsthetic and hygienic reasons and on the ground of convenience and other considerations. I have been for years in countries having a paper currency, in Austria and Russia, and more than once in Italy, and I can say that I have never taken kindly to small paper bills. It goes against one's grain to be all the time compelled to handle instead of the actual metallic money, which is better adapted to the purpose, these dirty bits of paper currency. They can not help getting dirty; you can see it on our small 5-mark and 10-mark treasury bills. We have to reckon, then, with this constant flow of gold into the general circulation.

In a calculation which was put forth here yesterday, with reference to the extensive use of gold in our manufactures, as well as to the increase of population, with the resulting increased demand for money for the purposes of circulation, and in particular the demand for gold, it was shown that we need annually for these purposes from 150,000,000 to 200,000,000 marks—that is, between 60,000 and 70,000 kilograms of gold. If this should turn out to be true and if we can not devise any means of providing a substitute for such a sum of money for the needs of

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business, we are once more confronted with the critical question as to whether Germany is actually in a position to draw annually upon the world's output of gold to the extent represented by these figures (so and so many thousand kilograms) and to retain this quantity permanently in her possession. This is an aggravation of our situation with which we have got to reckon. The secondary remedies at our command are incapable by themselves of producing any adequate result, and to the extent that they have an effect they are apt to interfere with the stability of our monetary standard. It is only by spreading the conviction abroad that it is possible under all circumstances to obtain banknotes for gold in Germany that you can cause our foreign bills to be considered as good, so far as the standard of value is considered, as the English bills. In this matter I likewise agree with our practical men, and I am especially in accord with what Herr Fischel has said on the subject.

This brings me to the suggestions put forward by Herr Fischel. I have learned a great deal from him in particular in the course of this inquiry, and much in regard to the point we are discussing. I think we ought to do our best to carry out the schemes which Herr Fischel has proposed. As to whether we can succeed, Herr Fischel himself is not quite certain; it is doubtful in any case. But the attempt is by all means worth making, and I venture to make the suggestion—we have not yet reached the point of reckoning on the gold that our African colonies have begun to yield—that we try to see if we here in Germany can not get the Russian

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gold, which is nearest to us, as we have all kinds of industrial and commercial relations with Russia, to come in considerable quantities to the Berlin market. A beginning has indeed been made already. Is it not worth while to make an effort to create a regular market for the importation of the Russo-Siberian gold? If we succeed, we shall have scored a decided gain. But in that way we shall excite the jealousy of England, people will say. Well, gentlemen, there is no help for it. We are always exciting her jealousy; we are doing it most unmistakably, for we are pretty strong competitors, and the English are not going to allow themselves to be fooled with fine words, no matter whence they come. ["Quite true. Bravo."]

We have to do what the German merchants have been doing. Their position was not always what it is now, and just see to what a position they have attained! In regard to this, I want to say: "All honor to the German merchant, to the German business man."

And now permit me to add a concluding remark, a personal remark. The charge has been brought against us from various sides—because in some of the things that the public has had to deal with, we theorists have assumed an antagonistic attitude—that we are the foes of those who engage in commercial and industrial undertakings and of merchants in general. We are far from it. But for all that we must be permitted to express ourselves freely in regard to individual questions. ["Bravo."]

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The CHAIRMAN. Geheimrat Lexis has the floor for a brief remark.

Doctor LEXIS. I shall take the liberty, with reference to the question of the gold census, to suggest, or rather recommend, a means which may possibly enable us to arrive at an approximate idea of the amount of gold coin that has accumulated since the beginning of the new coinage. What we have to do is to examine at a particular time the stock of gold in the Reichsbank and the various public treasuries and ascertain the relative amounts that are left of the coinages of the individual years. We shall find that so and so many per cent of our coins date, for instance, from 1886, and so and so many per cent from 1887, our calculations being based on the proportions found to exist in the Reichsbank and the public treasuries. Now we know how much gold was coined in each of these years, and so we can take the respective ratios and compare them, and thus make a rough estimate of the proportion of old coins in our stock of gold. We shall have to ask, for example, whether the ratio of the existing amount of gold coin of the year 1879 or 1880 to the total coinage of that year is a smaller per cent than the corresponding ratio in the case of newer coins. This is what we have to find out, and then on the strength of these ascertained facts we shall be enabled at least to establish some sort of mathematical basis from which we can draw conclusions, which, if they do not go beyond probabilities, will, at any rate, be in some measure an answer to our inquiry. It is not necessary for me to enter here into the details

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of such a count. All I wish to say is that there is a way of arriving at some sort of an estimate that will be of interest to us.

Doctor SCHMIDT. Gentlemen, in the course of these debates much space has been devoted to theoretical discussions respecting the balance of trade and the balance of payments. The balance of payments pursues a very tortuous path and the speakers have laid stress upon the fact that in the settlement of the international balance shipments of gold play but a very subordinate part by the side of the exchange of securities, the placing of German issues abroad, the floating of foreign loans in Germany, and the passing out of foreign obligations from Germany. In regard to the floating of foreign securities, it has been pointed out that the imperial government is able, without the actual exercise of constituted authority, to exert sufficient influence upon those engaged in the business to prevent the floating of undesirable securities. If we had legal regulations to the effect that the admission of foreign securities to the Berlin Bourse shall be made contingent upon the sanction of the Imperial Government, the Government would be provided with a lever that would enable it more effectively to assert its political and economic position with respect to the outside world. In France, as everyone knows, the Government has the right to decide, through the agency of the minister of finance, regarding the listing of any particular obligations on the Paris Bourse, and there is no need of telling you to what an extent, owing to the importance of the Paris Bourse, the French Government

is in a position to exercise pressure, in a political and, above all, in an economic sense, upon countries seeking to obtain admission for their loans. The French Government makes this admission dependent upon certain concessions of a political or commercial character by giving its sanction on the condition of greater favors shown to French industry.

To a certain extent our Government already possesses these powers, as was pointed out yesterday by Herr Fischel and Herr Roland-Lücke. Should the question have to be considered of establishing these powers on a constitutional basis, by the enactment of a regulation providing that the listing on the German Bourse be made contingent on the sanction of the imperial commissioner, it would be well, of course, to consult the wishes of the Government in the matter, as it would naturally be reluctant, as we are told, to have such sanction bear on its face the official sanction of the Imperial Government. I believe, as was stated by the speakers yesterday, that the existing state of things suffices to enable the Government to hold up undesirable loans or prevent their being placed at an inopportune moment.

The balance of trade has been discussed over and over again in detail, and we have been told that Germany imports foreign commodities to the annual value of 8,500,000,000 marks, which is 1,500,000,000 in excess of its exports. We shall certainly have to try to make our balance of trade more favorable or, at least, less adverse, by carefully attending to our export business and perhaps also by narrowing our imports so as to accus-

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tom ourselves to use more of our own products and less of those of foreign countries. We are not bound in this connection to turn our thoughts just to French champagne and think of our domestic product (laughter); but what I have reference to is the apparel that we wear, the Parisian garments and millinery, to which our ladies take perhaps too readily. There is no doubt in my mind that we shall find a whole array of foreign articles for which we could substitute those of our own manufacture.

In my opinion the importation of gold should not be regarded as essentially different from that of any other article. Just as we are obliged to import grain into Germany, cotton and wool and tin, and the copper for our copper works and electrical establishments, in order to satisfy the demand for them, so we have to import into Germany the gold for our gold industries and the gold that constitutes the backbone of our currency, as far as it is needed to meet the demand, and, with our imports amounting to 8,500,000,000, we ought, I believe, to have no special difficulty in procuring annually the 200,000,000 that are required to keep up our supply of gold on a par with the growth of our population. When we have to deal with such a sum as 8,500,000,000, a couple of hundred millions represents a very small percentage indeed.

I do not mean to say, however, that we should simply leave it to our commerce to procure each year this quantity of gold that Germany requires. This should be, in the first place, the business of the Reichsbank, whose duty

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it is to regulate the circulation. And it is, above all, desirable that the Reichsbank shall strive with all the means at its command, from the most weighty to the most humble measures, to keep its stock of gold up to as high a level as possible. We have heard from Geheimrat Wagner what a small fraction of the increase in the world's gold in recent years has come to the share of Germany. This appears to be due to the fact that the Reichsbank in the past few years has relegated the matter of gold imports to commerce in a greater degree than it has itself been active and energetic in providing the requisite means for promoting it.

Chief among the means that have been proposed is the discount policy, which is to have the effect of attracting gold and of preventing its outflow. Undoubtedly the discount policy is a very effective means of facilitating the importation of gold and of obstructing its outflow. It is not absolutely true, however, as we heard it stated here yesterday, that gold flows toward the place where the rate of interest is highest, a condition which is to be brought about by putting up the rate of discount. We were ourselves told yesterday that the Reichsbank has gold credit balances abroad to the sum of about 50,000,000 marks, on which it is getting perhaps 1 per cent interest, while here the Bank is charging 5 per cent on loans secured by imperial bonds, and even in the case of the large sums on which it has to pay the excess-circulation tax it has to turn over 5 per cent to the imperial treasury. You see, therefore, that it is not a universal and irrefragable proposition that gold seeks the locality where it can earn the highest interest; that there are other determining factors.

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The foreign-exchange policy has been warmly advocated on all sides. We have been told that it is absolutely necessary for a bank in Germany to keep a stock of gold bills in order, when exchange is unfavorable, to prevent gold from being exported as long as possible by satisfying the demand through these bills. There are some objections to this, however, when the total investment in foreign bills reaches inordinate dimensions; for the laying in of a supply of foreign bills amounts to just this: That in the case, for example, of bills on London, or, in other words, English bills, the Reichsbank discounts at $1\frac{1}{2}$ per cent, while it discounts German bills of the same class at 4 per cent. This is like favoring the outside world, granting credit to foreign countries at a lower rate than to our own country, so that our business world is in a measure placed at a disadvantage, especially if the Reichsbank allows its discount policy to be influenced by these investments.

It has been proposed to reckon these foreign bills in the Reichsbank's gold reserve, but serious objections have been raised to such a proceeding, objections in which I fully concur. It is proper, however, that the bank should take these investments into account in weighing the circumstances that guide it in settling upon a rate of discount. When the Reichsbank is paying a tax on excess circulation and consequently can not by any means lower its rate of discount, it will have to regard the total sum invested at a low rate of interest in foreign bills as so much to be deducted from the amount of bank notes it can put in circulation above the regular quota. These

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considerations, which enter into the counsels of the Reichsbank, more especially in its private capacity, should by all means be allowed to assert themselves in order to protect German industry from the handicap that would result from the necessity of maintaining a high bank rate, the official rate of discount, merely because the Reichsbank has invested in a large stock of foreign bills on which it gets an extremely low rate of interest.

The other means of drawing gold into the country have been successfully applied by the Reichsbank this very year, to the great satisfaction of all the members of this commission, and we can only urge it to continue consistently on this course. To get as much gold as possible from abroad must ever be the main endeavor of the Reichsbank, and every facility must be provided that will tend toward that end. Our existing monetary regulations in reality impose a tax on gold imports. If anyone imports bullion into England to the value of £1,395, he gets for it exactly £1,395 in coin or bank notes. But if he brings bullion into Germany to the value of 1,395 marks, he gets for it only 1,392 marks in bank notes. This seigniorage represents in a measure a duty on gold, which, of course, makes it considerably more difficult to import it. It is therefore well worth considering whether it would not be well, following the example of England and the United States, for the Government to reimburse the Reichsbank for the expense of coinage. The Imperial Government derives such a large profit from the coinage of nickel and silver currency that it can well afford to regard the expense entailed by the gold coinage as offset

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by such profit. As it is, the bank would probably be able ultimately to defray this cost out of its own pocket. In any case, in order to facilitate the importation of gold, we shall have to do away with this impediment and to let the importer get the value of his gold in bank notes or in coin.

The advancing of funds without interest is certainly an excellent means of securing for the Reichsbank a part of the world's gold product. There are still possibly other means that may be tried, as, perhaps, the higher valuation of the gold coins that circulate in international trade; for example, sovereigns and 20-franc pieces, which at the present time pass strictly by weight and fineness. The importation would be greatly encouraged if the bank were from time to time to fix the purchase price for the various coins. This would facilitate the arbitrage business and make the importers and bankers feel safer, so that each can say to himself that if he comes with, say, 500,000 sovereigns to the Reichsbank in Berlin he will get so and so many million marks for them. There is the danger, it is true, one that has already been pointed out, that in this way a quantity of underweight coins—of course, they have all to be up to the passing weight—may get in, so that more than 1,395 marks will be paid for every pound of pure gold in the coins. But the supply of foreign gold coin is mainly laid in against a financial crisis, when gold leaves the country and the rate of exchange rises so high as to compel an exportation of gold, and we must remember that the most important

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foreign bill is that drawn on London, the rate on which we have seen go up to 20.70, par being 20.43.

I am delighted, therefore, to see that the Reichsbank is taking measures to secure accessions to its stock of gold from abroad, and I trust that it will pursue this policy with vigor. For nothing short of a large supply of gold in the Reichsbank will enable us to regard with less anxiety the outflow of the metal from our country. If the Reichsbank had a stock of, say, two billions, which I do not regard as something unattainable, it could afford to look on without any particular concern when gold to the amount of 300,000,000 is withdrawn from the country in the course of a quarter of a year, just as the Bank of France does at all times. If we could carry out the scheme of making Germany a gold market that would attract a considerable quantity of the gold produced in the world, the result would certainly be most gratifying. As we ourselves produce no gold, we are dependent for the maintenance of our gold supply on the product of other countries. If the refining of this gold could be done in Germany and a market created for the metal, it would be easy for the Reichsbank to have a considerably larger supply. I hope we shall succeed with this project.

Mr. FISCHER. After the various technical and extremely interesting expositions to which we have been listening, I must confess, gentlemen, that it is with some reluctance that I rise to address you. Our chairman, however, has expressed a distinct desire that each member of the commission shall make known his views, and it is this that

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induces me to take the floor, although I fear I have little that is new to tell you. I therefore ask you in advance for your indulgence, all the more as I am afraid I shall not be very concise.

A number of concrete questions have been submitted to us on the question sheet, and at first sight it may seem as though they might be answered in a few words. This is not the case, however, in my opinion at least. For these questions may almost be said to contain an element of hypnotic suggestion. They exert a hypnotic influence upon us, carrying our thoughts back to the troubles that we experienced at the close of the past century, troubles which we have fortunately overcome. All the same the phenomena were of such a serious character that we naturally keep reverting to them for a time, and we feel impelled to improve our conditions wherever improvement is called for. We have, therefore, in the first place to ask ourselves whether there are any evils that we have to remedy. What are these evils, and is there any way of getting rid of them wholly or in part, or of mitigating their influence; and if so, what are these means?

In my opinion the evils have been of a twofold character. On the one hand, we have witnessed a most pronounced upward movement, which, as has already been pointed out by a number of the speakers, and especially by Herr Roland-Lücke, has partially overshot the mark. But there was another evil which I should particularly like to discuss, consisting in the fact that the mechanism of exchange at our command had not been organized before in such a way as to meet the demands of even a normal economic development. I think it is important for us to

discover the reason of this backwardness of our monetary system. At any rate, it was the conjunction of these two circumstances that produced such a difficult situation in the past year. To this was added the acute financial crisis in the United States, which occurred at a most inopportune time for Germany and made the situation so much the worse. But I feel sure that it would be a great mistake on our part to regard this circumstance as the sole cause of all the troubles that we have experienced. It was only the last drop in the bucket. Even without the panic in the United States, we should, in my opinion, be compelled to face very serious difficulties.

I do not hesitate to say this, inasmuch as we have weathered these storms safely and are now fortunately able to discuss these things calmly and to see them somewhat more clearly than we could have done the past year. I desire to say also that I am much gratified with the meeting of this commission of inquiry. I have learned much in the course of this investigation, especially from our scientific men, and I deprecate the notion that science and practice are necessarily at odds in this matter. I do not believe that we practical men are inclined to under-rate science. On the contrary, we have the greatest respect for it as the foundation of our practical deductions, and the conclusions which it draws from its reasonings, as well as the intellectual tasks which it performs day by day, facilitate our labors and inspire us with greater confidence.

In the course of the hearings of the experts there were loud complaints of the high rate of interest which we in Germany had to endure. I, for my part, regard the rise

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in the rate of interest which we have witnessed as a very necessary and wholesome, even if a very distressing, remedy and as one absolutely indispensable under the circumstances. In regard to the first-mentioned evil, the wave of high speculative values on which we were borne aloft, I am sure that no one is going to tell the Reichsbank that it should, or that it can, by whatever means it may have at its command, make its influence felt in a decisive way with respect to such a conjuncture; a general feeling of optimism will always lead a community in times of good business to overtax its strength and endeavor to accomplish too much. It is not within our power to prevent this. It has, however, frequently happened in financial crises—as history has taught us—that the banks of issue have exposed themselves to the charge of having, through their action in the matter of the rate of interest, and through an over granting of credit, hastened the course that business was taking. I do not see how in the case which we have been witnessing such a charge could be brought against the Reichsbank. On the contrary, it began at an early stage, by putting up the bank rate, to issue warnings, and to curb the immoderate pace of business. The managers of the bank were but too often criticised on this very account, but the subsequent course of events showed convincingly the wisdom of their policy.

Nothing is more dangerous than when a vessel under full sail is suddenly caught in a storm. The prompt orders of the Reichsbank to furl the sails were no doubt interpreted in an unfriendly spirit by some of the passengers who were anxious to sail along as fast as possible. I am

convinced that we owe to the Reichsbank the fact that we brought our ship into port comparatively safe and sound.

I consider it a matter not admitting of any doubt that the raising of the bank rate is a means which the Reichsbank is bound to adopt in such a situation and under all circumstances, regardless of the criticism which its actions may provoke among certain classes. It has to make use of such means, not merely in order to improve its own position, but also with reference to the whole economic situation. I regard the discount screws—screws are never pleasant things—[laughter] as absolutely necessary in order at a time of unusual industrial expansion to oppose a barrier against inordinate activity. In this sense I should, of course, consider the workings of the discount policy most salutary. As for the effects in other respects, and in particular the effect upon the monetary movements, I shall take the liberty of reverting to them later on in the course of my remarks.

I have referred to another evil—the inadequacy of the monetary mechanism which we had here in Germany to satisfy the needs even of a normal development; or, in other words, the insufficiency of our circulating medium. It will perhaps be found practicable in the future, if we can not do away with it altogether, at least to mitigate this evil to some extent. I am not anxious to engage in the dispute relative to the factors—be they the inordinate demands of industry, the immoderate granting of credit, or the rise in prices, or something else—that are responsible for the excessive demand for the instruments of exchange which has marked

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the recent tide of overproduction and overspeculation, for I believe that what has occurred was something quite natural and not at all surprising. We shall never be able to do away with the ups and downs in our industrial development, and it would by no means be desirable—and I agree herein with some of the speakers who have addressed you—that we should attempt to do it. A resort to the means at our command for this purpose would only interfere with the natural process of development and cause us to sink below the level of other nations, for we should only be curbing individual activities and personal initiative, and restraining that free action which in other respects is so salutary.

I propose to demonstrate to you, gentlemen, by means of a few figures, that we had been lagging behind very much in the matter of our currency. I will ask you in this connection to glance over the statistical data which the Reichsbank has placed at our disposal, as they throw much light upon this very matter. We find, on page 14 of Table I, that in the year 1898—that is, ten years back—the Bank had in its vaults on an average 850,000,000 marks in gold and that in 1907 the amount was 843,000,000 marks. We read, on page 23, that in 1898 the Bank had in circulation notes to the average amount of 1,124,000,000 marks and in 1907 to the amount of 1,478,000,000 marks. With an increase, therefore, in the circulation of 354,000,000 marks, there was a decrease of 7,000,000 marks in the metallic cash. The amount of notes not covered by metal increased from 274,000,000 marks to 635,000,000 marks. This in itself, irrespective of the above-mentioned reason,

would impel the Reichsbank to proceed more or less cautiously with its discount policy. The wish, so frequently expressed, for a permanently lower rate of discount is hardly in keeping with the situation created by a constantly increasing amount of uncovered bank notes. We can readily conceive that the increase in the currency in the course of the past ten years conditioned by the natural and normal increase of business, as well as by the excessive strain of capital and credit, had necessarily to be in the form, first of all, of an increase in the bank-note circulation. But the increase in such circulation should be accompanied by a strengthening of the metallic reserve on which it rests. If this is not the case, the time is bound to come sooner or later when we shall find ourselves in the situation in which we were toward the close of last year—of having to keep such anxious watch over our metallic reserve and of being made so uneasy by each successive withdrawal of gold as to be obliged to resort to the most drastic remedies. What we are bound to do, in my opinion, is to take permanent steps to have a larger quantity of gold than we absolutely need, a much larger quantity, for we must be prepared not merely to meet any possible internal crisis, such as is apt to occur in such a highly developed and progressive country as Germany, but also to face the disturbances in the industrial life of other nations with which we are permanently connected by international relations. Only in this way can Germany hope to maintain permanently her position in the world's market and as one of the chief seats of international financial opera-

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tions. And the maintenance of this position is of great importance not only with respect to the industrial situation of Germany but also as affecting her political position among nations and her relations, commercial and financial, with other countries.

Now, the question that we ought to put to ourselves is, What is the reason that the development of monetary mechanism has not kept pace with the needs of business? This is a most difficult subject, and all the more difficult in that in all one's utterances one has involuntarily an eye on the future, while, in order to form a judgment regarding conditions, it is necessary to go back to the past for even partially reliable premises. In my opinion the trouble does not consist exclusively in the fact that too much gold has found its way into the channels of domestic business, but also in the circumstance that the accession of gold from abroad has at times been inadequate. The existing output of gold in the world is ample enough, I believe, to meet the needs of every country in which this metal is the monetary standard, after making every allowance for the increasing demands of industry. If this has not been so evident on its face in the last few years as we might perhaps have anticipated from the actual size of the product, it is to be explained by the fact that so much of the gold has found its way to new territory to meet the needs of countries which have sought to place their currency upon a solid gold basis in place of an unstable monetary standard. To these countries belong Austria, Russia, Italy, Argentina, and others. They have absorbed gold on such a scale that

the inflow greatly exceeded the quantity that would have been required to meet the normal increase in the circulating medium. The gold product of single years had to be drawn upon in order to fill the gaps resulting from the failure to bring into requisition the product of many former years. Had it been a question merely of meeting a normal demand, the quantity of gold obtained from the earth that would be at the disposal of other countries would without doubt have been so large that I can by no means share the apprehension that a sufficient supply would not have been left for Germany.

In the attempt to explain the fact of our not having obtained a sufficient supply of gold, the matter of the balance of payments was extensively dwelt upon, but this is a subject, gentlemen, that I can approach only with great hesitation. There is no doubt that a very favorable balance of payments furthers the importation of gold. How do we stand in this regard? The balance of payments comprises a number of factors, among them some that we are not able to calculate with certainty. To establish an equation out of a number of unknown quantities is in itself not a particularly alluring task. To begin, however, with the most important factor, the balance of trade, we can set it down as some progress at any rate that the fact is recognized that in the commercial intercourse between nations it is not the balance of trade by itself that is the dominant circumstance, but the entire balance of payments. But we are still far from the point of being able to ascertain the figures of the balance of trade with absolute accuracy. The employees of the

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statistical bureau, I am convinced, are discharging their duties most zealously, but they can, of course, do no more than work up as much as is offered to them. In most countries the statistics of the balance of trade are conscientiously prepared. In spite of this we come across some queer showings. We find that the total of the imports of all countries taken together does not agree by any means with the total of the exports. We find this in the crassest way if we take, for example, the exports of a particular country, say England, to one of the South American States and compare the figures in the British statistical tables with the figures concerning imports from Great Britain in the statistics of the transatlantic country in question. There is frequently such a discrepancy between the figures that we can see at once that there is no possibility of getting an adequate presentation of the figures of the balance of trade. As a general thing the errors are in the direction of making the excess of imports greater than it actually is.

I am convinced that this is the case with Germany. In the course of the hearings of the experts, after listening to the interesting remarks of Geheimrat Mueller, I expressed myself to the effect that I should consider it portentous if, as some actually thought, our balance of trade should exhibit an adverse balance of two billions. I do not believe that we should be in a position to offset such an adverse balance by any resources at our command. I am convinced that this figure is not correct and that it can not be correct. In all probability the excess of imports does not exceed 1,000,000,000 marks. In spite of

all this the statistics of the balance of trade are of great service to us, as they can hardly fail to exhibit with a fair approximation to truth the relative movement of trade from year to year and consequently afford instructive lessons. They indicate the periods that are fraught with danger with respect to our economic well-being, those in which we export too little and consume, or say rather, import too much. The increase in our adverse balance in the last few years of 700,000,000 marks is therefore of great significance and one of the causes of the increased difficulty of satisfying our needs in the matter of a gold supply. Now, if it is so hard to deal with this factor—the figures of the balance of trade—how much harder is it still in the case of the other factors that enter into the balance of payments? In the first place, what is the meaning of balance of payments? It is very easy for us to pronounce this term, but the meaning it conveys is by no means a very clear one. We can conceive of two different kinds of balance of payments. The first is the one that we obtain if we take the balance of the exports and imports, together with the regular payments of one kind or another which recur year by year, as, for example, interest on foreign loans, profits derived from foreign undertakings, freights, profits from trade, sums expended by tourists, wages paid to foreign laborers, etc., and, in addition, investments in foreign securities or sales of securities abroad. They may perhaps be regarded as representing the primary conception of a balance of payments in contradistinction to a balance of trade. This I shall term a primary balance.

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There is, however, in reality a second balance of payments, one which, as I have been thinking, requires years for its settlement. This is the balance of payments which results if in making up our figures we reckon the means that serve to liquidate the differences in the crude balance. What are these means? In the first place they are the shipment of gold; that is to say, the importation and exportation of gold. The second means is the movement of money or of capital. The movement of money itself, however, manifests itself in ways differing entirely from each other. It may consist in the purchase or sale of securities abroad or in the setting on foot of undertakings in foreign countries or participation in such enterprises according to whether there is a surplus or a deficit in the balance of payments. But whether this movement, or what part of this movement, belongs to the first category or the second, it is impossible for anyone to determine, for it is so fluctuating and varies so much from week to week and from month to month that there is no way of ascertaining how much of it is a normal process and how much results from the necessity of settling the international balance. The difficulty is increased by the fact that there are monetary movements which enter as factors into the settlement representing short-term investments, such as the sale of treasury bills and of bills of exchange, the extension of loans, cash loans made to foreign countries or received from them, etc. But where the border line begins between the sale of securities and the issuing of a loan, between the sale of treasury bills and the issuing of government bonds, it is extremely difficult to determine.

I believe, therefore, that the state of the balance of payments, of which all the speakers here have made so much, declaring it to be closely interwoven with our monetary situation, hardly admits of being determined with any approach to accuracy. While I fully recognize the importance of this question, I am inclined to think that its significance is overrated by those who make it alone responsible for the inadequate inflow of gold into this country. A primary favorable balance of payments promotes the inflow of gold, but it is not, as far as I can see, a sole determining factor.

The matter of the inflow of gold, it seems to me, has to be studied in its various phases. First of all, we have to ask ourselves whether we are getting in an easy and normal way so much of the total product of gold as ought to fall to our share. Let me try to make my meaning clear to you. If a certain large quantity of gold is produced in the world, and if this product, after a part of it has gone to satisfy the needs of industry, is made use of in the world at large in the form of money, it appears to me to be a necessary part of the process that each country at intervals appropriates a share of the output. Let us imagine, for a moment, that this was not the case and let us assume, taking an extreme hypothesis, that a single country got possession of the entire gold product. There would in that case be such a superabundance of gold in that country that the equilibrium in its position with respect to other countries would be altogether disturbed; that is to say, the prices of commodities, as well as those of interest-bearing securities, would be completely altered. If every

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other country were to get gold and we got none, then, on the other hand, we should have a dearth of gold as compared with other countries; that is to say, they would be able to pay higher prices for commodities and securities than we, and it is this very circumstance that finally brings about some sort of balance. If the primary balance of payments is unfavorable, the effect of it is to raise the rate of interest, and in such a case the rate of interest has a much greater influence upon the movement of money than the balance of payments can have, for the reason that it affects the rate of exchange and brings about a corresponding movement of money from one country to another.

Supposing that there were no special means—e. g., the sending of gold from one place to another for the purpose of settling a balance—made use of in order to even out the ultimate balance of payments, we should, as a matter of course, have to reckon in the balance of payments, perhaps even in the balance of trade, that part of the gold product that we import, and are obliged to import, in order not to lag behind in relation to other countries. Apart from this importation, which is needed to maintain the equilibrium, we need a special increase in our circulating medium, as has been pointed out by some of the speakers, on account of the constant and rapid growth of our population and business. Even if the new-born part of the population is not so very loud in its demands in this respect [laughter], yet the old stock will all the more vehemently assert its rights in the matter of business. Yes, the whole of Germany is daily getting older, stronger, and more industrious, and I wish to remind you that it

would not be desirable for us to lapse into the condition which prevails in a neighboring country, where people as a general thing cease from work after a brief period of active life.

[Exclamations of approval.]

That under these circumstances it is much easier to maintain an equilibrium between the demands of business in the matter of a circulating medium and the supply that is obtainable I think is self-evident. But this very energy inherent in the German people, this desire to progress in the ability to do, as well as in the enjoyment of what life affords, this striving to reach a higher stage, I consider a great blessing, even if every now and then they may temporarily overshoot the mark.

As I have said before, I do not on the whole consider the balance of payments, as it is naturally evolved, quite as important as it is usually considered with reference to the supply of money, for I share the opinion expressed by some of the members that gold is a commodity, and a commodity which it is just as necessary for us to procure as many other articles that we import from abroad. The demand for gold does not play so predominant a part in the movement of commodities, as a whole, that the procuring of it should present insuperable difficulties. If our balance of payments is in itself not a favorable one, the inflow of gold will not take place so easily and so uniformly; but it is bound to assert itself eventually, because we need gold. I do not think that a constant unfavorable balance of payments is conceivable, and least of all one that will cause us permanently to export circulating medium.

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The exportation of this circulating medium would take place only in case we substituted other and cheaper currency for it, capable of performing partially, at least, the functions that gold performs at present.

The desirability of a more favorable balance of payments, on which some of the speakers have dwelt, I fully recognize in so far as an increase in our exports is involved in the matter. If the object in view is to be attained through a decrease in our imports, then I should not be inclined to regard the consummation as unqualifiedly desirable, for the increase in our imports is to be ascribed, above all, to the growing prosperity and the industry of our people and the increased consuming capacity resulting therefrom. There may be a few articles that we could produce ourselves and which we import, but I do not think that this is of sufficient importance to alter the situation materially.

In the course of the hearings of the experts I have heard various assertions relative to the matter before us.

Firstly, that we have undoubtedly had for years an adverse balance of payments.

Secondly, that this is evinced unmistakably by the rate of exchange, which, taking the average of each year, has been against Germany.

Thirdly, that when the balance of payments is adverse, gold can not be imported, but can, on the contrary, only be exported.

These opinions, as a rule, were held by one and the same set of persons.

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This all sounds so plausible that I was inclined to adopt these views as my own. But I doubt their validity, because they are not in accord with actual experience. We find, on the contrary, that in the decennial period to which I have reference, we have actually imported gold to the net amount of 1,735,000,000 marks. From this we must infer either that it is not true that we have an adverse balance of payments, or that it is not true that the rate of exchange is evidence of such an adverse balance, or else that it is not correct to say that the existence of an adverse balance of payments precludes the importation of gold.

As far as I am concerned, I regard all three propositions as unsound. I do not by any means believe that the past ten years, taken together, have resulted in an adverse balance of payments, whether we have reference to what I call a primary balance or to an ultimate balance. I am convinced, on the contrary, that, in spite of the significant figures of the balance of trade, we have a favorable balance of payments. The proof of it is that we are placing more or less money in permanent investments abroad. The relatively inconsiderable sums that we borrow in one country or another in the way of short-term loans prove nothing to the contrary. They can not avail to hide the fact that through the development of our credit operations and through our more extended relations with neighboring countries and with far-distant ones, Germany is assuming every year more and more the position of a creditor nation with respect to the

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outside world. If there were only some way by which the figures could be placed before our eyes, just as is done in the case of the balance sheet of a bank on the 31st of December, we should be astonished by the showing. We should find that, relatively to the sums that foreign countries advance to us in the way of short-term loans, we are actually loaning large sums of money to the outside world. What we do is this: We are a producing country, and we produce more than we need. The surplus we bequeath to our children, investing it partly abroad and partly at home; and this is as it should be. We have to do this if we want to make sure that there shall be no lack of bread in future years.

But, besides, we are merchants; we are intermediaries. At times we loan out more money than we have to spare, and the money comes in such cases from the cheapest money market over to Germany. I consider this very desirable, for such operations are advantageous to the community, and the profits resulting from them may constitute a large factor in the adjustment of the balance of payments.

Permit me to revert for a moment to the subject of the rate of exchange. We have heard it stated, and I believe special stress was laid upon the matter in the hearings of the experts, that the rate of exchange, taking the average, was continually against Germany, and it was argued that an importation of gold into this country was not possible on account of our having an adverse balance of payments. This way of looking at the matter

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I consider altogether erroneous. To deduce the rate of exchange from averages is a very unsafe operation, for everything depends upon just when the movement of the rate of exchange touches the lower or upper limit. This takes place at those times of the year when there is either a great supply of bills or a great demand for them. At other times the sums involved are relatively unimportant. Now, if we are going to make one day or one period count for as much as every other, we shall arrive at an erroneous conclusion; and the result which we should reach in our investigation in regard to the best policy to be pursued by the Reichsbank would be a very false one if it amounted to nothing more than making us fold our arms and say "there is nothing to be done because the conditions are adverse."

I thought I would just trace the movements of the rate of exchange in the last decennial period, and what I have discovered is certainly very remarkable. I find that in each individual year the fluctuations were so great that there were always times when it was profitable to import gold, and also times when exportation was profitable. I must mention here that when the rate of exchange on London is between 20.56 and 20.53 the gold-export point is reached, and that when the rate drops to 20.35 as a rule the gold-import point is reached, especially if importation is encouraged by the making of advances without interest.

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In the years 1898-1907 the fluctuations of London exchange (Berlin quotations for short-time bills on London) were as follows:

Year.	Highest.	Lowest.
1898.....	20.535	20.37
1899.....	20.565	20.39
1900.....	20.50	20.39
1901.....	20.47	20.36
1902.....	20.475	20.385
1903.....	20.495	20.35
1904.....	20.495	20.325
1905.....	20.48	20.35
1906.....	20.505	20.39
1907.....	20.55	20.42

The very high rate in 1899 is connected with the outbreak of the Boer war.

It appears to me that these rates of exchange do not by any means show that our balance of payments for a long term of years was an adverse one. ["Quite true."]

At the close of 1906 and in 1907 this may temporarily have been the case.

I should like to add with reference to this matter that it is a mistake to draw our inferences all the time exclusively from London exchange, for the rates of exchange with regard to other countries are also significant. If I have chosen to take the rate of exchange on London it is because I do not care to bore you with too many figures. The same facts, however, are exhibited in the case of Paris exchange. But neither London by itself nor Paris and London combined is decisive in this matter. We have to consider the exchange relations with respect to all countries; that is to say, with respect to other countries

than the two in question. To get an average out of all this, to try to calculate from such data how the rate of exchange actually operates—excuse me, gentlemen, but I am not enough of a theorist to believe that this can be done. It is my opinion, therefore, that we may as well lay aside this factor, and that we need not regard it as one that ought to affect our notions with respect to the attitude of the Reichsbank in the future.

I have already said something regarding the policy of the Reichsbank in the matter of the discount rate with reference to meeting a condition of overstrained capital and credit. I attach the greatest importance to the discount policy of the Reichsbank with respect to the importation of gold and the prevention of its exportation. As the balance of payments comprises a number of factors, possessing a certain amount of mobility, such as the exportation and importation of securities, loans that are made, etc., the one means at our disposal is to try to influence the force of these movements through the rate of discount.

I believe, however, that the raising of the rate of discount on the part of the Reichsbank operates in more than one way. If the Bank puts up its rate the first effect is to cause Germans to demand payment of sums due them abroad, and a further effect is to cause foreign creditors to extend the term of loans made to Germans, either by not demanding immediate payment on account of the higher rate of interest or by the much more natural method exemplified by the action, let us say, of an American holder of a bill of exchange against Germany on

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account of cotton sold, who will not discount this bill in Germany, but instead disposes of it in some other country where a lower rate of interest prevails. Such a proceeding would, in a case like this, be equivalent to the extension of a loan. The raising of the rate of discount will have its effect upon the capital invested by foreigners in this country. It will, moreover, affect the movement of securities, inasmuch as a smaller amount will be bought in Germany and a larger amount sold to the outside world. It will hinder the floating of foreign loans in Germany and perhaps altogether prevent it, a point that has been repeatedly touched upon in the course of these discussions. A further effect of a rise in the rate of discount will be that the prices of commodities in Germany will fall, or at least that an advance will be checked, and that, in consequence of this, exportation will be promoted and importation prevented or retarded. Above all, the spirit of enterprise will be curbed, which will result indirectly in a diminution of consumption.

I therefore regard the proper adjustment of the rate of discount as a very important matter in relation to the possibility of permanently providing Germany with the necessary currency. One can not serve two masters at one and the same time. It is not possible to have a rate of interest as low as that in France and at the same time be interested in a number of undertakings, to maintain Germany's position in the world's commerce, induce foreigners to invest money in Germany, and prevent our money from being sent abroad on a large scale. However regrettable it may be that certain branches of indus-

try should be made to suffer temporarily by the raising of the rate of discount, still I think we should not lose sight of the fact that every immoderate fall in the rate of interest has the inevitable effect of compelling us to put up with an excessive rise later on. Of course the Reichsbank has to be careful to observe the right measure and not go too far in one direction or the other.

Now, the discount policy of the Reichsbank would be a very simple matter if we were in a position to prohibit other countries from likewise putting up their rate of discount. The necessity of raising the rate to $7\frac{1}{2}$ per cent has been called in question. Well, I regard this as a very crude way of judging of the situation. (You are not the person whom I have in mind, Freiherr von Gamp.) The opinion has been general in the community that the resulting hardship might have been averted. But if we are able to put up our rate of discount in order to draw gold, let us not forget that other countries can do the same; and if they do, their raising of the rate will operate in the same way with respect to drawing away gold from us and keeping it away from us as our raising of the rate does with respect to other countries. I am convinced, however, that the raising of the rate last year, in spite of the very large exportation of gold, had an excellent effect upon the monetary situation. It had undoubtedly the effect of strengthening the Reichsbank for, on the one hand, the drain upon its stock of gold was not as large as it would otherwise have been, and in the next place the bank was not so much affected by the exportation of 200,000,000 marks of gold, inasmuch as it was

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enabled to strengthen itself by drawing upon the money in circulation. As a matter of fact, our figures show us that the stock of gold at the close of 1907 compared favorably with that in the preceding year. Consequently there is no sense in complaining if the remedy which our doctor prescribes for us tastes bitter.

The suitable adjustment of the discount policy is, in my opinion, the best means that can be applied.

And now, gentlemen, I come to the secondary means. I, myself, have suggested a lesser means in the course of this discussion, whose importance I do not wish you to overrate, but which, I believe, may be of some value in the future.

Realizing that we have had sufficient money for every possible purpose, including investments abroad, but that our foreign credit balances have not been ample enough to secure for us a sufficient supply of gold, we can not help concluding that there may be something at the bottom of this condition that calls for improvement.

I consider it a great disadvantage for Germany, as I explained fully at the time of the hearings of the experts, that in the distribution of the world's gold product—that is to say, in the procuring of the share of it which we require—we are less favorably situated than other countries, especially England, in that we have heavier charges to defray for the reason that we are located off the beaten track and remote from the sources of supply, and that the gold does not come to us direct. We can not shake off this disadvantage any more than we can prevent England from having such an array of natural

advantages—I need not enumerate them, as they are all familiar to you—with respect to the concentration of the gold supply at its own market. London is bound to remain the chief market for gold, and the Bank of England will always be preeminently in a position to supply itself with the metal, to get hold of what is offered by paying, if necessary, a higher price for it.

Now, here is an idea that has occurred to me: There are three leading countries of prime economic importance and making use of a vast amount of gold in their business transactions which have the gold standard and therefore are equally interested in having a continuous stream of gold coming to them, with the result that they are active competitors in this regard. But apart from the fact that these three countries are very differently situated with respect to the advantages which they possess for procuring their gold, there are essential differences with regard to the terms prescribed in the matter of the purchase of gold. These three countries are England, the United States, and Germany. France has indeed likewise a very large share in the international money movement, but she does not play the same rôle either in industry or commerce as the other three countries. A comparison of the trade statistics of France with those of the countries I have mentioned will suffice to prove this. France, however, occupies a very favored position in that she is constantly receiving large sums of money that the outside world has to pay her. She has not the gold standard pure and simple, and she can intrench herself behind the possibility of paying in silver. For France,

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therefore, the problem of how to secure a constant supply of gold is not a very pressing one.

And now as to the terms on which purchases of gold are made. In England there is no seigniorage. If I take a bar of gold to the British mint, I get back its full value in coined sovereigns, weight for weight, without any deduction whatsoever. If I carry gold to the United States mint, the same thing takes place as in England. The gold is received at its full par value, the precise weight in American gold coins being paid out without deduction of seigniorage. Indeed, the United States Government goes so far in the matter of upholding the gold standard that the Treasury regularly furnishes bullion for export at an insignificant premium (only four-tenths per 1,000).

Now, let us glance at the situation in Germany. Although we have, to begin with, an unfavorable geographical position, being situated off the main thoroughfares of commerce and obliged to pay increased transportation charges, although we have not the same relations with the gold-producing regions as England has, and although we do not possess the same monetary standard, recognized all over the world and employed by so many countries in their international payments, and are besides handicapped in various other respects, we compel everyone who brings his gold to us to pay on a pound of the pure metal, the par value of which is 1,395 marks, the sum of 3 marks, which is charged in the way of seigniorage. The Reichsbank pays down 1,392 marks. We have not to deal here with a merely theoretical question, as to whether it is a sound principle that a state shall provide the metallic currency

needed for the business of the country and assume the expense of coinage, as is the case in England and America—as a matter of fact our Government does partially provide for the expense of the currency by withdrawing from circulation coins that are not full weight and substituting fresh coins—but the question before us is an eminently practical one, as to whether it is expedient to add greatly to the inherent and inevitable disadvantages under which we already labor with respect to other countries, especially England, in the matter of procuring our gold supply, disadvantages which are bound to be permanent, by making a relatively unfavorable price (1,392 marks per pound) the normal price. Are we bound to place ourselves in the position of a nation whose birth-right is ignored in the distribution of the world's gold product? When, at the time of the establishment of the Reichsbank and the institution of the gold standard, we settled upon this amount that was to be deducted in the way of seigniorage, we allowed ourselves to be guided by the practice of France. In France an equivalent deduction is made. This gave rise to serious complaint formerly, when the situation in that country was not as favorable as it is at present. But even now, in spite of the fact that France receives and absorbs such a large share of the world's gold product, this is not without its inconvenience, as the country obtains its gold only through indirect channels, and in getting it is subjected to great fluctuations in sterling exchange. The rate on sight drafts on London has to fall considerably below par in France in order that that country shall not be shut off from its gold supply.

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We are similarly situated in Germany, and this I regard as not very desirable. If, as a matter of fact, we are not obliged to pay more than 2,784 marks for a kilogram of gold, the result is that, even if the gold that is to be imported from England is not held there at too high a price, we can get it over to Germany only if the rate of exchange here falls more or less below 20.35, and then only in case the operation can be effected without loss of interest. As a matter of practical business there is this additional sacrifice involved, that the necessary sums have to be advanced without interest. Now, considered merely with reference to the question of our gold supply, there would be nothing particularly regrettable in the fact of the rate of exchange falling frequently to such a level, as long as this movement was dependent merely upon the necessity under which we were of obtaining gold or as long as we could say, "As we must have the gold, the rate of exchange will have to come down." And this is just what takes place in the course of years, as far as I can make out. But why does it take place and under what circumstances? Because, when there has been no inflow of gold for some time, the rate of interest with us necessarily gets to be considerably higher than in other countries, because this higher rate affects all the various factors that I have mentioned, and, finally, because it exerts such an influence upon the rate of exchange that gold is finally forced to come to us. But this whole operation requires considerable time. During this period we have to suffer from the disadvantage of having to work with too little cash—with an insufficient reserve. I regard this as a drawback,

nor do I consider the great fluctuations in the rate of exchange very desirable. In between there may be times when we are compelled to replenish our gold reserves, and when, by the offer of special inducements, we are virtually obliged to submit, as is the case at present, to a much higher purchase price.

It is for this reason, gentlemen, that I have proposed, as one of the lesser means, that we should do away permanently with the seigniorage paid at the Reichsbank, that is to say, that the price of gold should be fixed at 2,790 marks per kilogram of the pure metal, or 1,395 marks per pound. It is obvious that, when this has been done, even with less violent fluctuations in the rate of exchange, there will be an inflow of gold into Germany. I consider it of great importance that this higher purchase price be permanent, fixed for a long term of years. In that case I believe that gold would more frequently come to us in the course of the year, for it will be sent to us regularly if the producer or the dealer is sure—which is the main thing—of getting a favorable price, the par value, in Germany. I regard it as necessary not merely that we pay this price, but that we pay it regularly. Only in this way can we cause a part of the gold that now goes to England to be sent hither, and that without its being necessary for the Reichsbank every time to resort to some special arrangement in the way of advances without interest, which at times is a rather expensive expedient.

It is of great importance, in my opinion, that the inflow shall be regular and sustained (which would remove one

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of the disadvantages under which we now labor as compared with England), in order that the Reichsbank may not be obliged after a long stoppage to go into the market like any ordinary mercantile concern and that we may not be compelled afterwards to pay for our gold more than what would otherwise have been the average price. I have expressed myself so fully in the course of the inquiry, and especially of the hearings of the experts, concerning this point and more particularly the conditions of the London gold market and our relations to it, as well as the advantage that, in my opinion, would result from the abolition of the seigniorage, that I have had to content myself here with referring only in brief terms to the subject. I must, however, insist that it will not do to say once for all that in future there is to be no such thing as making advances without interest (irrespective of whether or not the purchase price is fixed even above 2,790 marks). Such advances may become necessary in very exceptional times, as when we are intent on obtaining large amounts of gold speedily or have to face the competition of other countries and the special measures to which they have recourse (including this very thing of advancing money without interest). But a resort to such an expedient should be regarded as an exceptional measure.

It has been argued in opposition to what I have been saying that gold has been imported in recent years in spite of the low price, but this is explained by the fact that at certain times we have by no means adhered to the price of 2,784 marks. We have practically raised the price by making advances without interest, in which we have occasionally gone to considerable lengths.

However expedient advances without interest may be at certain times, there is occasionally a peculiar disadvantage connected with them. If they have to be made for a comparatively large number of weeks it frequently happens that the gold arrives before the expiration of the term, in which case not only the amount of the gold that has come but also that of the advances is at the disposal of the money market, or in other words, a double amount, as a result of which the rate of interest in the open market is inordinately depressed, which the Reichsbank is not particularly anxious to see just when it is exerting itself to attract gold and has been putting up the rate of discount for the purpose. Cheap money in the open market would, as a general thing, by causing a rise in the rate of exchange, be an obstacle to the importation of gold. The expedient in question is therefore not an altogether unobjectionable one.

In connection with my suggestion I have something else in view. An idea has occurred to me—something which perhaps is incapable of being realized at the outset in its full scope, and what it amounts to is this: That if, as a result of the increased and at all times steady price of the metal, we secure much more regular shipments of gold from abroad than heretofore, whether they be to some extent direct from the mines or from London, or from whatsoever country that may wish to send us bullion or coin (I presuppose that the purchase price of foreign coins will be correspondingly raised), a situation will gradually arise in which temporarily we shall be receiving more gold than is necessary to meet the needs of the Reichsbank for the time being. This would afford us an

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opportunity of supplying gold for a while to other countries to which, by reason of our central location, we are more accessible than London, so long as we have more gold on hand than we need; in other words, we shall be approaching the ideal state in which, in addition to the one gold market hitherto existing in London, a second market has been brought into being in Germany.

Of course, I do not believe for a moment that there is any use in our trying to oust England from its position as the great gold market of the world. We should never succeed, and it would be in vain to attempt it; but it is no-wise ordained that, if there is one market, there can absolutely be no idea of a second one developing. It is not so long since, as I recollect, no one imagined that there could be a cotton market outside of Liverpool. Cotton and Liverpool were two conceptions that could not be dissociated from each other. No one thought of buying cotton elsewhere than at Liverpool. We have recently seen, however, how it was possible to establish another market for cotton, which in course of years has grown to be very important—the one at Bremen. The same was the case with respect to the English bill of exchange. It was an axiom that all payments in countries on the other side of the ocean had to be made by means of English bills of exchange. As a result of our energetic way of doing business, the German bill of exchange is now also accepted, if not to the same extent as the English, at least to such an extent that our industry is thereby greatly benefited. I think, therefore, that you would do well, gentlemen, in considering the matter in question, to lose

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sight of the ways and habits of business. Business is in a perpetual state of evolution, and if we can offer inducements people will find their way to us in spite of London. On the other hand, I do not wish to dispute what Herr Roland-Lücke said yesterday, that in any case the development of a gold market in Germany must be a slow process, and that it is bound to take years before it can work well. I have expressed the same thing myself repeatedly in the course of these discussions.

All the same, it is worth while to make the attempt, for, if we should eventually succeed in establishing a gold market in Berlin, the Reichsbank would have the advantage, just as is the case at the present time in London with the Bank of England, of being in a position when gold comes, by offering more than 2,790 marks a kilogram, to make sure of getting its supply first in case of urgent need. There is another way, it seems to me, in which such a gold market would operate for the public good, and that is in meeting the needs of the gold-manufacturing industries, which would no longer be obliged to melt down our 20-mark pieces. Furthermore, there would be times when orders for gold would come from some of the neighboring countries, such as Scandinavia, Austria, Switzerland, etc., which could obtain a supply from us by paying more than the Reichsbank figure of 2,790 marks when the Reichsbank was not intent upon the purchase of gold by reason of having gradually accumulated a stock sufficient for all needs. It would be a good thing, too, if the Reichsbank, at times when customers for gold did not happen to be forthcoming, would temporarily lay in a

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larger stock of gold at the purchase price of 2,790 marks than it absolutely needed in order to be able, later on, when the demand stiffened, to dispose of some of it at a higher price, as, for example, 2,793 marks. My idea is that the Reichsbank should be a very active factor in the gold trade.

I should like to say a word or two at this place in reply to the question that has been raised as to whether, in case we were to fix our price in the way it is fixed at the English and American mints, the other countries would not be likely to follow suit and raise the price of gold similarly. In my opinion there is only one other country that could undertake to make such a change, and that is France. In France the percentage that is deducted is about the same as with us, and it would be natural to ask whether it is not a useless thing to perpetuate such a disadvantage, and all the more so when another country has been added to the number of those that have emancipated themselves from it.

But France has weighty reasons for not imitating our example in the matter of putting up the price of gold. The economic conditions in France are such that there is a superabundance of gold flowing into the country year in, year out. If a time came when this was no longer the case, the people there would perhaps be tempted to do what we have done. But even if France were to embrace such a policy, it would mean for us only that our needs would be in competition with those of France, a condition which already exists. One effect, however, would be that sterling exchange in Paris would not fluctuate as

much as it does now. If gold were to be bought in London on French account, the price being, let us say, 77s. 10½d., then the rate of exchange would not fall, as at present, to 25.13, but as a result of the higher purchase price of gold in France, it would remain at 25.19. But even under existing conditions France is the chief purchaser of gold. Is it likely therefore that she would be anxious to get more? I hardly think so. Neither is it in her interest at present to pay a higher price for it.

As far as England is concerned, I can not see that any change is called for in the regulations governing the Bank of England. What object the English would have in changing their price to one 6 marks higher and assuming this loss in addition to the expense of coinage, considering that England is forever going to have the lead in the purchase of gold? The Bank of England is able, as it is, whenever it is badly in need of gold, to buy it by putting a higher price on it. It is legally not bound to pay more than 77s. 9d., the mint value being 77s. 10½d.; and, if there is no competition, it occasionally lowers the price that it offers to this minimum limit. It can afford to do it because other countries have to reckon on higher transportation charges and other expenses, while it has the advantage of being able to pay even as much as 77s. 10½d.—and this price it pays frequently—without suffering any loss on account of mintage, as there is no such thing as seigniorage. If it were to go regularly above this price, which corresponds to a par of 2,790 marks, it would suffer a direct loss at every purchase if it were to convert the gold into sovereigns, and in England,

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just as in this country, recoinages are required every year. The bank would have no interest in anything of this sort. At the present time it pays exceptionally even more than 77s. 10½d, in order to get a higher price for the gold later on, although it has never in the past few years, to my knowledge, paid as high a price as that mentioned by Geheimrat Lexis, 78 shillings.

A MEMBER: 78s. 0¼d.

ANOTHER MEMBER: Market price.

Mr. FISCHER. Yes, the market price was 78s. 0¼d. and more, but not so the purchase price of the Bank of England.

We have to distinguish between the market price and the purchase price of the Bank of England. If Geheimrat Lexis meant the market price, then I have nothing to say; in that case I simply misunderstood him yesterday. Even now it often happens that the Bank of England does not stick at the price of 77s. 10½d., and is ready to go higher when it comes to the buying up of foreign coin, which does not always take place when it is most convenient for foreign countries, in order to encourage the shipment of coin from other countries to England. In this way it paid more for German gold coins last year than their actual gold value. It is a rather unnatural condition, this willingness of the bank to offer an exceptionally high price just when Germany is in any case obliged to export gold. We have before us a very singular situation, the Bank of England with a big stock of 20-mark pieces, running up to several million pounds sterling, which it has secured at a premium — that is to say, by paying more than

77s. 10½d.—and the Reichsbank possessing a still larger amount of sovereigns brought from Australia, which likewise have had to be paid for at a price considerably above the gold value. [“Quite true!”]

Both the Bank of England and the Reichsbank intend to dispose of the coin later at an advanced price, at a time when exchange is unfavorable, and by means of their sale to check the exportation of domestic coin.

You see now where we are going to land if we allow ourselves to drift into a situation where we have to rely upon extraordinary conditions.

I wish to say emphatically that if we are now in a very unusual position, if for the past ten years we have been getting too little gold, I am of opinion that we should take energetic steps, as the Reichsbank has been doing, to remedy the situation as quickly as possible. I believe, however, that it would be far preferable to procure gold regularly in the course of each year by paying 2,790 marks for it than to be in the habit of procuring it spasmodically at a considerably higher price by making long-term advances without interest, as we have found it necessary to do this year.

There is a further question which I think I ought perhaps to try to answer—one put by our chairman—as to how the new policy would be likely to work with respect to the point that Geheimrat von Lumm raised in his address. I quote from his words: “The bank says, ‘We grant these advances without interest only to reliable parties who we feel sure are not importing the gold simply as so much merchandise which is in transit in

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order to reexport it in some other form.'” Of course, gentlemen, if we are compelled temporarily to pay such unusually high prices by means of advances without interest as we are paying just at the present time, then such a precautionary measure is decidedly in order, perhaps even necessary, although I do not believe that anyone will be anxious to exploit the Reichsbank for the purposes of this sort of arbitrage business. If afterwards, however, gold has to be exported, we must remember that it will not be possible to get it at par. To obtain bullion it would be necessary to bid above the bank’s fixed price of 2,790 marks, and, if anyone proposed to export 20-mark pieces, the price, owing to the wear of the coins, would be 2,796 marks. In future no one would offer to sell gold to the bank at 2,790 marks in order afterwards to export the same thing when the price was higher, for this would mean a loss. But if the bank now, by means of long-term advances without interest, pays a price which is practically equivalent to 2,798 marks a kilogram, then it has a right to say: “If I pay this unusually high price, I must make sure that no one comes along and enters into dealings with me with the object afterwards of sending gold out of the country in the form of 20-mark pieces.” As these cost only 2,796 or 2,797 marks, the precautions that are now taken are not unwarranted. I believe that the question as to how these things will turn out in future will suggest its own answer if it is put in this form: If the Reichsbank is to go on permanently paying a price of 2,790 marks, is it conceivable that anyone will deliver gold to it at this

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price in order to export it at a cheaper price? I consider this an impossibility for, inasmuch as gold can never cost less than 2,790 marks, no one can find any profit in exporting it, even in the form of 20-mark pieces, as these would cost at least 2,796 marks a kilogram.

It has been further argued that the Reichsbank at the present time pays the higher price represented by the advances without interest only when it is certain that otherwise the gold would not be imported, and when the amounts involved are large. Now, I must tell you frankly that I do not believe in this twofold criterion and that I do not believe in it even when it is applied by reason of a large sum being involved. It is possible that the Reichsbank occasionally procures gold at as high a price as 2,794 or 2,795 marks, or at even a somewhat higher figure, by making advances without interest, while at the same time it obtains certain quantities from other sources more cheaply. It appears to me that in that case it either pays too much for its gold or that those who offer it gold at a lower rate must be lacking in business sense, for the effect of long-term advances without interest, which is equivalent to the payment of a higher price for gold, must manifest itself in the rate of exchange and the price of gold in general. But when the rate of exchange is down to 20.36 or 20.35, then I certainly do not expect the Reichsbank to offer anyone an excessively high price.

There is still another point to be considered. If the price is permanently 2,790 marks, the question could not possibly arise whether an importation of gold might not take place with the price as low as 2,788 or 2,787 marks.

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The procuring of small doses I consider of no value whatever with respect to our getting the supply of gold that we need. I believe that the history of the past ten years has taught us this, and that we had better get rid of the notion that we ought to try to procure small quantities of gold at a lower price, unless we are willing to pay the penalty of it later on. As long as the Reichsbank has not yet adopted the principle in question, as long as its operation has not yet been invoked, it will naturally happen every now and then that gold finds its way to the bank in small quantities at a low price, but always (barring very exceptional cases) merely as the result of a violent downward movement of the rate of exchange. But what I regard as one of the most desirable concomitants of the introduction of the new policy is the fact that the rate of exchange will be more stable, not fluctuating so violently either downward or upward, which will be of great advantage with reference to the German bill of exchange.

The limitation of the range of the rate of exchange is, in my opinion, one of the fundamental advantages to be derived from our gold standard. The introduction of a gold standard has for its object to secure a stable measure of value not only for our domestic business, but also for our international trade. Such a stable measure of value facilitates commerce. But the limitation of the range of the foreign exchanges possesses an additional advantage, which I consider very important. Whosoever brings gold into Germany, be it for a shorter or a longer time, must be desirous to derive a profit over and above what an investment in his own country would yield. But the interest

which he obtains is bound to be diminished through the losses which he sustains on account of the fluctuations of exchange. Now, if the fluctuations of exchange in Germany are greater, it means that foreign countries will send their money hither only in the anticipation of obtaining a higher rate of interest. It means that we are debarred from the great benefits which the London market enjoys at present and which have made this market so important—the participation of the whole world in the financial operations of England and the interest the world has in sterling bills of exchange and in the maintenance of credit balances in London. The fluctuations of exchange not only result in loss to the investing capitalist but they also have the effect of causing foreign customers to drop away. If in the past year by reason of the high rate of exchange investors in German exchange lost more than they expected to gain through the difference in the rate of interest, it would be a difficult matter to induce them to engage again in similar transactions, inasmuch as they do not regard these as the safest of all operations, but rather as speculations which they do not care to engage in on principle. If we consider that in every country, just as in our own country, there is a strong desire to keep the money as far as possible from going abroad, it is evident that in the violent fluctuations of our exchange we place a dangerous weapon in the hands of the outside world, of which it will certainly not fail to avail itself.

I should like, gentlemen, to revert, in a few words, to the question of the use of gold in the industries. I am one of those who believe that it would be very difficult

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to prevent industry from making use of our German coins if there is any advantage in it. We have heard of cases where the Reichsbank supplied full-weight coins to manufacturers, who of course obtained in this way a cheap raw material. But there can be no inducement to melt down coins in general, and worn coins in particular, if by carrying on a very extensive business in foreign gold in Germany—I mean a business in foreign coin and bullion—we afford industry at all times an opportunity of easily procuring its gold without having to take 20-mark pieces. In any case it would not do to hinder industry by artificial means from obtaining the gold that it needs.

I should like to say a word here in behalf of Doctor Ströll, who made a statement which, it seems to me, was based upon the impression that there was something in the composition of the German coins which made them especially available for the purposes of industry. I believe that this notion was due to the fact that a wrong explanation was given to us by the experts of the gold industry. These experts asserted that “we can not melt down any other coins, even if they are cheaper, because there is something in the alloy of the foreign coins which renders them unserviceable.” This suggested the idea that it might be practicable to introduce the same composition in our own coins. The information which we received, however, was not correct, being based upon an error. In particular, what the gentlemen stated regarding the Russian coins is altogether at variance with the actual state of things, for, as a matter of fact, Russian coins are being constantly shipped from here, day after day, to

Pforzheim to be melted down in the gold industries there. These coins are bought because they are cheaper, because there is at all times a steady supply of them, and because there is a market for such coins in Berlin. In other words, it is easy to get hold of them. But if industry in the past has mainly made use of German coins this has been due, in my opinion, to the fact that for a long period our situation with respect to foreign exchange was not a favorable one, the German coins being thereby rendered cheaper. If they had been regularly dearer than other gold, industry would have tried before to make use of other coins. I think it would be a good thing if the Reichsbank could attend to the needs of industry in such a way as to do away with the necessity of melting down coins. I think it will be prompted all the more to do this if in future, by reason of the abolition of the seigniorage charges, it will have to assume the expense of recoinage, which ought to make it more intent than ever on the suppression of all unnecessary expenses in connection with minting.

I should like to call attention to the fact that the assay office in New York converts some of the bullion which it receives into small ingots specially adapted to the needs of manufacture, which it supplies at a very low figure, making a merely nominal charge, so that it practically supplies industry with the gold that it needs.

I wish furthermore to make a suggestion with reference to the statistical inquiry that has been set on foot (and which I consider very valuable) relative to the needs of industry and the various kinds of gold required for its

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uses. The melting down of German gold is going on not only in Germany but also in Switzerland, where a great deal of gold is consumed in the manufacture of watches. I should like to ask the question whether it would not be possible through our relations with Switzerland to get some light upon the situation there, and perhaps to induce the authorities to take steps to ascertain in the interest of German statistics how many German coins have been melted down in that country in the past few years. We ought to have this, it seems to me, for the sake of greater completeness in our estimates, especially as I have no faith unfortunately in the practicability of the scheme suggested by Freiherr von Gamp of gauging our stock of gold by means of a general census of the quantity actually in possession of the public. It would, of course, be of great advantage if we could have an accurate idea of the amount of gold that is in our possession, circulating from hand to hand. The impression that the banking world was not anxious that such information should be at hand is, in my opinion, altogether unfounded. If here and there some member of the banking fraternity is not in favor of such an investigation, it is probably owing to the conviction that the scheme is not practicable and that the data obtained would in any case be altogether untrustworthy. The kind of investigation proposed by Geheimrat Lexis would all the same be likely to furnish some valuable material, although it would not be calculated to give us a clear notion as to the extent of our gold supply.

For my part, I should like to submit the following for your consideration: Would it not be a good thing if the

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Reichsbank were to keep regularly an account of the amount of bank notes returning to it and of the quantity of gold coming into its vaults from all over the country? Although this might not enable us to have a clear idea of the circulation, inasmuch as the bank notes can find their way back quicker than the gold, still we should have some knowledge of the ratio of paper payments to gold payments, and valuable material will have been supplied bearing on the question of how far our circulation is saturated with gold.

Well, gentlemen, this has been quite a little digression. I find that I have been making large drafts upon your patience, and I am afraid that the hour has arrived for the noon recess. Would you prefer to have me continue after the recess?

(Exclamations of "Rather go on now!")

With reference to the consumption of gold in industry, you will perhaps find some data that I wish to submit to you of interest.

I have obtained the following tabulated information, which I consider reliable, regarding the use of gold for industrial purposes in France in the years 1898-1906.

	Amount.	Value.
	<i>Kilograms.</i>	<i>Francs.</i>
1898.....	18,240	62,800,000
1899.....	21,600	74,400,000
1900.....	20,800	71,600,000
1901.....	21,600	74,400,000
1902.....	24,600	84,700,000
1903.....	18,250	62,900,000
1904.....	20,300	69,900,000
1905.....	21,065	72,500,000
1906.....	27,800	95,700,000

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We find, therefore, that the consumption in 1898 amounted to 62,000,000 francs and that the figures increased until in 1906 the amount had become nearly 96,000,000 francs.

These data are derived from reliable sources and I have been otherwise assured of their correctness. In France these statistical tables are prepared from the figures supplied by the stamping offices. As all gold articles that are manufactured have to bear an official stamp marking the fineness of the gold, very fair data are afforded relative to the use of gold in the industrial arts. You will observe that there has been a considerable increase there, as well as in Germany, and I agree with the speakers who have asserted that we must be prepared for a further increase in the consumption of gold in the arts.

A good deal has been said here about the mistakes in our estimates of the gold in circulation, arising from the circumstance that no account is taken of the gold carried out by foreign laborers. It is possible that I have not fully grasped the meaning of the speakers, but from the figures that were adduced it appeared to me that it was taken for granted that the sums earned by foreign laborers left the country. I do not believe that is the case. I believe that these sums, in so far as they are not expended here, go abroad for the most part in another form, and that consequently they constitute a factor only in our balance of payments and not in our balance of gold movements. To a certain extent, it is true, the foreign laborer carries off gold coins with him when he leaves Germany. But there is no doubt that he exchanges this gold for the

gold of his own country, which he does very often the moment he reaches the border. Both on the German side of the boundary and on the other side there are numerous exchange offices at the railway stations in which such exchange business is conducted. I believe that when the laborers take the gold with them across the frontier and exchange it at some place close to the boundary, it does not return to Germany through the mails, but through the channels of the ordinary traffic that is being carried on along the border, and in this way is overlooked in the statistics of imports. I consider this all the more probable because otherwise the sums which the laborers might thus carry off with them in the course of the year would, according to my calculation, reach such a figure that we could not have helped noticing the effect upon our circulation by this time. In estimating our stock of gold it is necessary to take into account the consumption in the industrial arts, in so far as that involves the melting down of 20-mark pieces. In my opinion, however, the other factor, the sums carried out of the country by laborers, is of little consequence.

A VOICE. How about tourists?

MR. FISCHER. The tourists who carry away gold go with it when they have left our border to some exchange office. The gold is not melted down, but is sold to Germany and comes back again. If this were not the case, we should have to assume, on the other side of our account, that we had a large inflow of foreign coins which foreign tourists brought with them. I do not think we ought to lay any stress on this factor. Anyhow, it is customary

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in calculating the statistics of our stock of gold to deduct at once, as far as the information is procurable, the amount of our coins which the great foreign banks happen to have in their vaults as well as the amount melted down in foreign mints.

I have still a few words to say in regard to the situation in England. To begin with, I think Freiherr von Gamp is right in asserting that we are overdoing this matter of constantly referring to England as a pattern for us to be guided by in every respect. But all the same, there are a good many things about England that we ought to know, and many things which it is undoubtedly interesting to study. It must certainly have struck us as something very remarkable that, whereas the putting up of the rate of discount in England immediately affects the rate of exchange in such a way that gold pours from every side into England and conditions soon become normal, our experience in Germany has been that, apart from the abnormal conditions of the past year, the effect has by no means been so pronounced whenever we have resorted to what we term applying the discount screws.

I believe there are various reasons for this. A chief reason is that when England puts up the rate of discount not only are loans called in and the numerous drafts drawn in foreign countries upon England against credit not renewed to the full amount, but the whole world proceeds to buy sterling exchange. The raising of the discount rate of the Bank of England to a certain point will necessarily send up the rate of exchange on England in other countries. But if the raising of the discount

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rate in Germany does not at once affect the rate of exchange, the reason is that, while in the case of sterling exchange only a small margin has to be allowed for loss, the loss in transactions in German exchange in foreign countries is always treated as an unknown quantity. This is due to the fact that gold can at all times be readily procured in England and that England is regarded as the only country in which gold is free to come and go. The English always point to the fact that London is the only free market for gold as the reason why they are bound to be in a position to procure money and gold more easily than other nations. I believe therefore that the question of the exportation of gold is one to which we ought to devote special attention.

When I urge that the Reichsbank should encourage the importation of gold by raising and steadying its price so as to provide itself with as large a stock of it as possible, one reason is because I hold it to be extremely injurious that a doubt should arise at any time as to whether gold can be exported from Germany. Yes, I wish that there might be no further occasion even for the mild reproach that we are not glad to do it. I believe that we can properly maintain our foreign trade only by giving to gold the character that belongs to it. Its office is to adjust and to balance international transactions. The importation of gold must be facilitated, and gold must also be allowed to flow freely out of the country.

I should like to make clear to you by a little instance to what lengths foreign prejudice and misconception as to our situation is carried. In February of this year, when I was

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in England, I talked with a great many people, some of whom occupy important positions in financial circles. I found that there was no general knowledge of the fact that at the end of last year—that is, a few months before—large sums of gold had come from Germany to England. I found everywhere the impression that no gold at all had gone into England from Germany. When I thereupon said, “But you have constantly seen from the reports of the Bank of England that gold has been imported, and surely these reports are not false,” I was met with the reply, “Was not that gold from Russia?” So firmly convinced were these gentlemen that German money could not come in. I had a good deal of trouble in establishing the opposite idea.

Now, if it was thought that the gold must have come from Russia, that was perhaps due to the circumstance that in former times Russia appeared so often in London as a buyer of gold. Probably the English were thereby firmly convinced that Russia would bring gold back again. Hence it seems to me we are safe in concluding that we need not be very anxious about the effect that would be produced abroad if we were to fix a full price on gold. For even if we should go more frequently and for longer periods into the foreign markets as buyers of gold, or if, as the case may be, we should have gold sent here to us, still there is absolutely no need of our assuming that this will have an injurious effect upon us. It may even happen, on the contrary, that on this account more confidence will be felt in the German currency than is the case now.

In this connection I should like to return once more to the question of whether London particularly might feel

called upon to adopt counter regulations. Yes, the Bank of England has, to be sure, calmly seen how in this year almost all the gold that came out of the Transvaal has been again exported. Often it would have required just half a farthing to secure the gold for the bank. It is evident, therefore, that the bank makes no strenuous efforts to buy gold except when gold is really needed. The idea that it will have gold *à tout prix*, and that it encourages an unnatural inflow, seems to me to be accordingly ruled out. After the Baring crisis in 1890 the Bank of England pursued the policy of permanently strengthening its cash supply because the situation of the bank was perceived at that time to be too precarious, and the statistics show us that the whole increase of its stock of gold took place within a short time after this event. In the Bank of England there was in the year 1890, 440,000,000 marks of gold. We find that by the year 1896 the stock of cash had risen to 900,000,000 marks. Since this time there has been no further increase, while in the year 1907 we find the amount to be 700,000,000 marks, a figure which gives the approximate average for recent years. The Bank of England allows a few million pounds to go back and forth, but when it is in good condition it makes absolutely no unusual efforts to prevent other countries from receiving gold. And this can be easily explained. The note circulation of the Bank of England is an almost completely stable one; the Bank of England has therefore no occasion to increase abnormally its gold supply in order to strengthen the note cover. If we are differently situated, that is precisely because our note circulation is not at all a stable thing, because, on the contrary, it is constantly being extended.

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I will call attention to another point. If the Bank of England were inclined to make reprisals, would it not have taken means much sooner to prevent Germany from being able to buy up the whole of the Australian gold production of this year, which usually flows naturally into the Bank of England in the form of sovereigns? I really think, although the exact figures are not known to me, that Germany has bought up even more than the full amount of the gold produced this year; sovereigns that have been used in Australian business have actually been exported along with the rest. This measure, which was necessary for us, has led to no obstructive regulation on the part of England, although it could have been very easily managed if England had so desired; it would have been sufficient to say to the Australian banks that the Bank of England was also willing to make interest-free advances.

Now, I must reply, in a few words, to what Freiherr von Gamp has said in reference to the flotation of foreign loans.

The statistics that have been submitted to us, and to which Freiherr von Gamp refers, give no sure basis, and contain two groups of figures. Those of the *Frankfurter Zeitung*, which come much nearer the truth than the other set, rely on estimates that make no claim at all to being complete. The second set of statistics, with the big figures which Herr von Gamp quotes, gives an entirely false impression; for if the aggregate face value of the issues which have been put out at the same time in Germany and in other countries, is cited, without ref-

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erence to that part of it which comes to Germany; then these figures can tell us nothing. Especially with regard to the Russian loan of 1905, I wish to contradict an error which crept in when Freiherr von Gamp said that it was issued at a time when our relations were already strained. The loan was introduced in 1905, at a time when there was in our money situation absolutely no ground for supposing that it was not desirable to introduce a foreign loan. In that year our rate of discount fell to the abnormally low level of $1\frac{3}{4}$ per cent. If we recognize the principle that we should save money, and in particular that we should do so in our dealings with foreign nations, in order that we may have it at some later time as a reserve in the form of foreign loans, then one would think that no moment could be more appropriate for such a flotation than that in which the rate of interest is so low and in which at the same time there is every indication that we possess money for which there is no employment. But I, too, share the view that every introduction of a foreign loan must be put through with proper judgment and tact (I expressed this view even so long ago as the time of the hearings of the experts). It is very true that not every time is suited to the carrying out of a flotation. Only I should like to make a little remark in this connection. We have, on many grounds, a motive for accustoming foreign nations to dealing with us; for we need them for the investment of the surplus of our savings. Desirable as it is to choose the moment wisely, still we are not always in a position to seek such financial operations according to our pleasure. If, for example, a country has

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for ten years made no loans, and if at a certain time it has need of money, then it is not at all likely that we could say, "Would it not be better if you were to wait a year?" By such conduct as this we should often wantonly and foolishly lose valuable connections.

But I can add this further consideration to quiet the fears of Herr von Gamp: No such inordinately large sum has come to Germany from the 1905 loan of 500,000,000 that we need ever be anxious on this account as to our monetary relations. On the contrary, the loan has, because of its special nature, met with approval in different countries, and has even spread to other lands. It was at once placed on the market in Russia, Germany, and Holland, and that even in the early days of January. At the beginning of 1905 there was no question of a crisis. But at the end of the year 1905 there certainly appeared in Germany circumstances somewhat less propitious. But from that very instance it became evident that the maintenance of friendly financial relations with other countries is of great importance to us. The sums that were invested at that time by Russia in German loans at $3\frac{1}{2}$ per cent are in my estimation very significant. Apart from that, a great deal of money came at that time to Germany from Russia to be put out at interest in the form of deposits. If we had broken the financial thread, England or France might have had the advantage of this transaction.

But I should like also to bring into the discussion another bit of my experience. At the end of 1905 we saw, to be sure, that our money supply was dangerously

small. Do you know what happened then? We obtained gold from Russia. Russia sent us 100,000,000 in gold, which came in toward the end of December, and which has remained with us ever since. And, indeed, no gold of any kind has run out of Germany because of the receipt of the 1905 loan. I ask you to draw for yourselves a picture of what would have happened if in the year 1906, or even in the year 1907, we had not had at our disposal this sum of 100,000,000 in gold. Let us not forget that the international money business is a very sensitive thing. It is very dangerous to draw general conclusions from unfavorable circumstances that arise at a particular time. Many things that were not in the least intended are sometimes brought about in this way.

I will not revert in detail to the question of the rate of private discount, for I have already taken up altogether too much of your time. I will make just one remark. If it is said that the rate of private discount ought often to be not so low, then I fully agree. And if one of the members of the commission could show us how to accomplish something in this line and how to eliminate more or less the competition of foreign countries, I should be very grateful for such a suggestion—I should even be ready to pay a premium for it. But if the object is to be accomplished by letting the moneys lie without gathering any interest, then I must say that that is a dear and very uneconomical proceeding. And if we look to foreign countries for examples in this matter, we should not forget that it is precisely in the form of private discount that foreign money deposits are made. I ask, then, whether it

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is really very much to be desired that we pay more dearly for these moneys? I certainly oppose no objection to this, for it is greatly to the interest of us bankers that the rate of private discount be not too low. But I hardly think that a commissioner of the Reichsbank could accomplish this. In the year 1894 people in a neighboring country were very much afraid of increases in the rate of exchange. So a commissioner was sent to the Bourse to prevent such increases. I beg your pardon, gentlemen, but he did not succeed in doing it.

Now, as to the holding of a greater quantity of foreign bills by the Reichsbank, I can only say that I welcome such a measure heartily, even though the foreign-bill portfolio is not quite as important for us as it is for countries that have large interest payments to make abroad upon national obligations. I believe that the proper management of our foreign-bill policy may be a valuable means of strengthening our general money policy and of influencing the rate of exchange at times when an exportation of gold is to be feared. The sale of foreign bills will have a much greater effect if the sale is made by the Reichsbank than if the sale is made out of the supply of foreign bills possessed by private bankers or by private banks, because through the distribution of these by the Reichsbank, just as through the distribution of gold by the Reichsbank, money flows back out of general business and out of the open market into the bank. A contraction of the general note circulation takes place, which has the same effect as a raising of the rate of discount, and which in so far tends to lower the rate of foreign exchange. It strengthens

thereby the effect of a simple sale of foreign bills. In the transactions of the private banks money merely changes hands. But through the lowering of the rate of exchange an exportation of gold can at times be diminished, retarded, postponed, or perhaps even entirely prevented. The portfolio of foreign bills serves, moreover, another very useful purpose. This is that one can set a limit to a downward movement of the rate of exchange by purchasing at low rates. A foreign-bill portfolio of the Reichsbank on the present footing, which exists for a time and which goes out of existence for a time, can certainly be made to have a moderating influence upon the market for foreign bills. But we must not count upon too great results from this, for experience teaches that often even the very largest sums fail to accomplish anything in the foreign-bill market. In relation to the rate of interest they are particularly ineffective. But I welcome it as a further means of increasing the effect of the discount policy. And it has also the advantage—which is not at all to be despised—of enabling the bank to import gold against its stock of foreign bills (and that without regard to the price of gold), and by this means avoiding the necessity of raising the rate of discount. Otherwise, we should, in these instances, be obliged to raise the rate of discount merely through want of a certain quantity of gold. In critical times, therefore, the bank may employ its stock of foreign bills almost in the same way as it employs a gold reserve. Nevertheless, I should be opposed to having it counted in with the metallic cover, for we must not overlook the fact that the function of the metallic fund is to

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redeem the notes as they are presented, and for this purpose the foreign securities can not be used. It is even a mistake—and one that I very much deplore—for us to count the imperial treasury notes as part of our note cover. [Bravo!] I have already spoken of the advances free of interest, and said that they are an efficient means of encouraging the importation of gold at exceptional times. I should like, however, to lay down once more my chief principle with regard to this matter. For ordinary times we ought to make arrangements—by raising the purchase price of gold—by which in a natural manner, day by day or month by month, there would be an influx; but we ought at the same time to be able to take now and then more energetic active measures. In cases of urgency we shall be able to produce quick effects through advances free of interest, perhaps in conjunction with temporary further increase of the price. But it is desirable that we should regularly, as a general thing, receive gold, in order that we may strengthen our holdings continuously and promptly. In this way we shall be less often called upon to make acquisitions later of a special and hasty kind. It is better to receive the gold too early.

A member of the commission has proposed that we buy up also foreign coins, particularly sovereigns, by the piece and without reference to the weight. I object to this because I am afraid that people would hunt up the bad coins to send to Germany, and would send the heavier ones elsewhere. Light coins cause too great a loss in case of recoinage; they would, it is true, be available if there should be an exportation of gold to the country

from which they came; but this may happen not to take place for a long time, and, on the other hand, exportation to other countries may become necessary, and for that these light coins would not be available. Such a measure as this, of buying up by the piece, could be considered only as an additional resource in very exceptional times. In general I would not recommend it.

I come now to the last question under B: How is the outflow of gold into other countries to be obstructed? To a considerable extent this question has already been disposed of by what has been said before. It is to be obstructed by management of the discount policy, with additional help, if necessary, from sales out of the foreign-bill portfolio. A policy of premiums on gold, which was proposed by one of the experts, should be rejected without hesitation; I have already, in the course of the hearing, expressed in detail my views on this point. The exportation of gold can not always be prevented, nor would this be desirable. The exportation of gold, indeed, has, of itself, a tendency to correct the very market conditions that led up to it; for we must not overlook the fact that when we export gold other countries are importing it; that, therefore, at the same time that there is at home a rise in the rates of interest there takes place abroad an easing of the money situation, so that a double change in the prices of stocks and goods takes place; there is pressure here, and at the same time other countries are better able to buy up goods and stocks from us. In this way the equilibrium is very soon reestablished.

Gentlemen, I must beg you to forgive me for having spoken so long. But in closing I desire to express the

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pleasure I have had in seeing how in this investigation we have come near to agreement on a great number of subjects. I for my part admit that much that I have heard—from the other members as well as from the experts—has interested me greatly, and I am convinced that the investigation has been of much use in clearing up our ideas.

I thank you again for the patience with which you have listened to me.

The CHAIRMAN. I think I shall be expressing the feeling of all of us when I thank Herr Fischel very warmly and sincerely for his most interesting and enlightening speech. [Bravo!]

I should like to say to him, in reply to the doubt that he expressed, that his speech to-day has only strengthened still more the lively interest which was aroused in us all by preceding observations on the subject of the creation of a German gold market. I should advise the Reichsbank Direktorium to give further careful consideration to this proposition, taking counsel together, in small groups, in order to find out whether, and if so how, it may be carried into practice.

There is still just one little question that I wish to ask Herr Fischel. Do the London and American mints give gold coins immediately upon the delivery of bars, or do they take some time to do it?

Mr. FISCHEL. As to the American mint, it pays, I know, on the next day. In regard to the English mint the question really can not be answered with certainty, because for years no private parties have taken gold to

the English mint. For a long time it has been in practice the case in England that all the coinage has been done on account of the Bank of England, as it is done here on account of the Reichsbank. The English mint is, I believe, not bound to give gold immediately upon the delivery of bars. It is only bound to have the gold it receives coined as soon as possible. With the arrangements that are now made this can not, I think, take much time. If long delays were allowed to intervene at all, it would have to be intentionally. But in England, when the rate of interest is low, even such delays as might take place would not really matter much. The Bank of England is able to profit by the fact that the mint does not make immediate payment in sovereigns; for it is thereby enabled not to pay quite the full price, being not obliged by law to pay more than 77s. 9d. In point of fact, however, even when no other buyers are in the market, it pays, besides this price, a little commission to the brokers, and it also takes upon itself the cost of assaying; thus it pays in reality more, even though it abides by its minimum price. But this is not entirely conclusive for our case, since we are differently situated in consequence of the greater freight charges that we have to pay, and in consequence of other circumstances that exist here, such as the deduction made for assaying and for losses in smelting, all of which expenses together may be valued approximately at one-tenth on the thousand. In my judgment, then, the true par of the minimum price paid by the Bank of England is, in consideration of what has been said, and assuming that exchange is at par

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(20.43), almost precisely 2,790 marks. But I should not be afraid of evil consequences if, through the establishment of a price of 2,790 marks, we were obliged to pay somewhat more than the Bank of England. If anyone wishes to contend against the customs that have hitherto prevailed and to create a new market, he will have to be very liberal in his conditions. It is also to be feared that under any circumstances the most important market for gold will still be in London; that it could not be diverted from London by another country even through an increase of the price; and that at best we shall succeed, by means of our measures, in obtaining gold regularly, but that we can never aspire to attain a degree of importance in the gold market equal to that of England.

Mr. MOMMSEN. Gentlemen, after the very detailed expositions of the subject made by Herr Fischel, I can, I think, sum up very briefly my answers to the stated questions. The circumstances have been placed before you, and it is not necessary to take up the separate points again. One of the observations of Herr Fischel I wish particularly to bring up again. In a rather long exposition he submitted his view that our balance of payments is not nearly so unfavorable as it has hitherto been represented to be by all the experts and by most of the members of the commission, with the exception of Herr Schinckel. I myself consider the view of Herr Fischel to be absolutely right, especially when taken in conjunction with what Herr Schinckel has said. I think that the whole showing of the figures furnished by the Reichsbank

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statistics in a certain sense proves this view to be right; for it is hardly credible that, if we had had in recent years so heavy an unfavorable balance of payments the figures would still have remained where they are.

I should like to bring still another figure into the discussion. Herr Fischel gave the figures of the stock of metal in the Reichsbank for 1898 and 1907, and explained that it had diminished by 7,000,000—from 850,000,000 to 843,000,000. On the other hand—and you will excuse me if I fill out this statement—I wish to bring forward the fact that in the same period of ten years the stock of gold was not diminished, but was, on the contrary, increased at the Reichsbank by 50,000,000; and since for the question we are here considering the stock of gold is, after all, the most important factor, we can not, I think, draw any very unfavorable conclusion from the figures of this ten-year period. Expressed in figures, the stock of metal was diminished by 1.2 per cent, but the stock of gold alone was increased by 9 per cent. Here, then, we have at hand figures which appear to argue against the existence of a heavy unfavorable balance of payments, and I should be greatly pleased if the further discussion of the subject finally enforced the conviction that we are not on the wrong side of the ledger in the sense in which, through the publication of our balance of trade, we always appear so to outsiders. I think Herr Schinckel is quite right; the profits secured by German commerce, which surely form an essential contribution to the improvement of the balance of payments, are in general greatly undervalued and are not given nearly enough weight in reckoning the balance.

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I see that Herr Geheimrat von Gamp, who was not among us yesterday afternoon, is absent this afternoon also. If he were here, I should have been glad to say a few words about the view of foreign loans which he has held for many years. Since he is not here, I can sum up my ideas very briefly. I merely wish to point out that we must have as secure a position as possible in international commerce; and yet it is proposed that we be deprived of the only means we still have under our present unfortunate economic policy—I will not dwell further upon that point—of being able to influence in some measure the international market. For without admission to the Bourse we are not in a position to fulfill the desires of our home capital to participate in foreign loans. Even Herr von Gamp, if he looks at the matter from this point of view, will certainly not deny that this is of enormous importance, not only for our economic life, but also for our whole international policy.

That the position of our bourses is not such as for this purpose it should be, we are all agreed. Herr von Gamp is always pointing to the admission of large amounts of foreign loans. Gentlemen, the question in this aspect has not nearly the importance that Herr von Gamp attributes to it. I will even assume for the moment that the figures are correct. They are, as Herr Fischel has already fully established, absolutely incorrect; this is at once obvious from the fact that from two quarters different statistics are given which claim, both of them, to be correct, but which are diametrically contradictory in the very most important and fundamental points. Let us take up the

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foreign state loans of the year 1905. The Frankfurter Zeitung appraises the nominal value at 724,000,000, the market value at 676,000,000; the statistics of the Ökonomist appraise the nominal value at 866,000,000 (about 140,000,000 more than it was estimated to be by the Frankfurter Zeitung), and the market value at 711,000,000 (that is, only 45,000,000^a more). There can be no question but that there are gross mistakes in these figures. It could be further proved in the case of other figures, but I will not go into the matter in detail.

A thing that is of much greater importance in its effect on the outflow of German capital into other countries has come about in consequence of our bourse law, to which we have often referred in other connections—namely, the fact that people at large in Germany have begun to speculate very extensively in foreign securities. These are securities that can never be reckoned up in these figures, nor can they, indeed, be specified at all; and it will be a long time before this situation is changed. The figures that are given in those estimates do not, moreover, in the least prove what Herr von Gamp in his remarks wished to prove. He reproaches the bankers with inducing the public to invest too much money in foreign stocks.

Now, gentlemen, in the year 1905—this, too, has already been referred to—there was actually such a large supply of money in Germany that one could truly say that it was not necessary to invest all this money at home, that some of it might be invested abroad. Now, even from these statistics (which, to be sure, are themselves wrong, but which probably give the figures in fairly correct pro-

^aThe actual difference in the figures is 35,000,000 —Translator.

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portions), you see at once that in the year 1906 the investments in foreign securities fell to one-tenth of what they were in the year 1905, and that in 1907 they fell to one-fifteenth of the same amount. Why, even if the commissioner whom Herr von Gamp wishes to bring in in some legal way were present, even he could have done nothing more. All he could have said is that when the rate of interest is high investments in foreign securities must be curtailed; and this was done anyway.

I think that too much weight ought not to be given to this matter. In my opinion, and here I beg to differ with Herr Geheimrat Wagner, it has no effect upon the regulation of the rate of interest; and I think that many, or perhaps all, men of practical experience will agree with me that the investment of German capital in the foreign paper admitted here to the bourses has exercised no influence whatever. It is not in itself sufficient to exercise a real influence; and, as a matter of fact, the paper has never been taken over by the people except when there has been a good opportunity for doing so. This regulates itself quite automatically through the market.

Herr von Gamp also reproached the banks with having lent their services to enable the public to sell Austrian, Italian, and Russian securities which he has designated as, if not first, at least second, as distinguished from third, mortgages, and to buy other paper in exchange. I think that in this the banks are really not at all to blame. People always imagine that the public sells only on the advice of the banks. Generally the public feels that it is much wiser than the banks; it buys and sells as it thinks best, and the banks can do nothing to change matters.

Now, Herr von Gamp referred to another question, that of the private rate of discount. He maintained—I shall not go into the particulars—that the private rate of discount, and the profits which the great private banks obtain from it, must exert an influence upon the discount policy of the Reichsbank. I think that if our chairman and the gentlemen of the Reichsbank administration were to answer this question they would undoubtedly take the stand that there can be no question of any influence upon the bank discount rate exerted through the private discount rate as such. The private discount rate is, to be sure, an indication that the money question is becoming easier or more difficult, as the case may be, and for this reason the Reichsbank must, in shaping its discount policy, follow carefully the changes that take place in the private discount market; but as for an influence, in the proper sense of the word, and especially as for any intentional influence, there can be absolutely no question of such a thing.

Gentlemen, let me say a few more words about the remarks of Herr Geheimrat Wagner. First, I am glad to find that I am in entire agreement with him in what he has said about the theoretical and the practical men in relation to the questions that we are here considering. I believe that we all have reason to make use of every opportunity to learn something from the theorists; and I am glad that the theorists thoroughly recognize, in regard to the most important phenomena, that they may also learn from the practical men. I welcome this as a particularly happy result of this whole inquiry. I see that agreement can thus be arrived at on many points on which each side

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formerly held to preconceived opinions. I am inclined to think that in the case of both practical men and theorists it has been here shown that the preconceived opinions are not in such bad shape as we thought. Although we have for the most part very different economic principles from those of Herr Geheimrat Wagner, we arrive at almost the same final conclusions in regard to the questions which have chiefly concerned us here to-day. And more than this we really can not ask—especially we practical men, who are after all personally interested only in the final results.

Now, Herr Geheimrat Wagner had admitted that the investment of capital in foreign securities is useful and necessary. On this we are all agreed, with the exception of Herr von Gamp, and even he found the assumption to be necessary for his introductory remarks, though he abandoned it in the last nine-tenths of his speech. But Herr Geheimrat Wagner lays stress upon the great risks which are still involved when the German public invests money in foreign loans. He sees these risks especially in the possibility of losses caused by decline of price. Well, gentlemen, we have never doubted that one may lose money on securities, both domestic and foreign. One may also gain money on them, and I think that, striking a balance, our German public has lost on foreign securities much less money than it has gained. At any rate our German public has lost much more money in recent years through our first-class domestic securities (I have in mind Prussian consols and government loans) than it can have lost, all told, through foreign securities. [Laughter.] I think, therefore, that we should not give so very much prominence to this point that there is a possibility of loss.

It is true that the public may suffer an immediate loss on a stock of this kind. Let us suppose, for example, that the people who take over the loans place them at a small profit, and the public afterwards has to pay the losses caused by decline in price. After all, this is everywhere the case, and as regards the great undertakings of business it does not matter if a loss is occasionally entailed by such a decline in price. Losses of this kind, in an economic sense, can properly be spoken of only in case the promised interest on foreign loans is not received; for the investing public which buys such paper, or at least the large public that we have in mind, should, by rights, not buy these securities in order to sell them again immediately, and so to profit by a rise in price, but to hold them for a long time, and the public that buys them in this way hardly ever has occasion to complain of losses of property; and the cases in which interest is not paid are extremely rare, and, indeed, at the time in which we live and of which we are speaking, they really do not come up at all. It may be hoped that they will not occur again in the future. At any rate, I think that if this is the only risk that Herr Geheimrat Wagner is afraid of—that losses may be suffered through such paper—then we ought never to sell any paper on the Bourse, for this feature is shared by all domestic and foreign paper. And on the other hand there are the very great advantages that are produced if the German bourse, like the English and French bourses, can also take over foreign loans. Gentlemen, this taking over of foreign loans is often not particularly in the interest of the German banks, but *is* often in the interest of the foreign policy of the country. I do not know whether the news that I read

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in the paper this morning is true; but if it is true it is very instructive. The question is what is to be done about the Balkans. England can not grant to Russia the privileges she wishes in the political domain, but as compensation the English ministry is said to have offered to the Russian the taking over of a loan. That is a political move which may be of great value to England.

Gentlemen, so much for these matters. I will go no further into the particulars. The position that I take with regard to the particular questions here asked is in line with the expositions of the subject that Herr Fischel and Herr Schinckel have already given us. I will not burden you further with my statement of the case.

Freiherr VON WANGENHEIM. Gentlemen, I permitted myself yesterday to say to the honorable chairman that I have no intention of entering here upon answers to the separate questions. I have two reasons for this. In the first place I agree with Herr Geheimrat Wagner that it is probably of little use for the purposes of the inquiry as a whole that we laymen should express our views on the technical questions, of which we can not judge as well as the experts. I believe that during the inquiry extremely valuable material from a technical standpoint has been gathered together and that this will contribute to the improvement of present conditions. I conceive that one mistake, and one factor in the failure of our national economic policy, lies in the fact that essentially we confine ourselves, by a purely mechanical method, to taking up the separate phenomena and symptoms and drawing consequences from them as to further developments. If a

fundamental result, a lasting benefit, is desired, there is no course open to us but to treat the question in all its bearings as an organic whole, and thence to deduce conclusions for the alleviation of critical conditions.

Now, I wish to put forward as briefly as possible the general standpoint of political economy. I have, however, already explained to the honorable chairman that I should be very glad not to take up your time and should be perfectly willing to submit my remarks in writing. I have no vanity in the matter.

A VOICE. Then we could not reply to them.

Freiherr VON WANGENHEIM. First a few preliminary remarks. I will not enter upon a discussion of controverted points of political economy. I will touch upon only two points, one of them being in reference to the ideas just expressed by Bank Director Mommsen. He said, in reply to the remarks of Herr von Gamp, that it would not be right to speak of the great losses on foreign loans; that we have much more cause to say that losses have been incurred in domestic loans. But Herr Mommsen contradicted himself by saying shortly afterwards: The public can not talk of losses so long as it receives its interest. From domestic loans it has certainly always received its interest.

Now, as to a fundamental question that was bandied about yesterday by Herr Raab and Herr Weber. Herr Raab was, to my mind, right in saying that in the matter of the much-discussed balance of payments and balance of trade the point of interest is to diminish imports, and I think that what Herr Raab meant to say has been

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seriously misunderstood. In making out the final outcome of our economic balance too little consideration is given to the fact that a considerable quantity of new values is produced yearly in increasing measure by German agriculture, the only branch of activity, indeed, that does produce entirely new values. You will admit that manufactures have only to do with elaboration which, through the expenditure of capital and labor, creates greater values. New values are really created only by agriculture—or, if you like, by God through agriculture—out of the inexhaustible resources of the soil, out of rain and sunshine. Now, this is what I wish to say in opposition to Doctor Weber. If we go deeper into the question of how far an increase in German agricultural production is still possible we find such large sums that we are obliged to admit the advisability, from the standpoint of the general economic interests, of adopting energetic measures to develop and encourage German agriculture, especially in the East; for in this way, apart from the gain in grain and cattle, there is created in agriculture a market which will enable our manufactures to get on without a considerable part of our exports in case other countries will not take them into their markets.

For further treatment of this question I should like to refer you to an extremely interesting book by Herr Geheimrat Doctor Traugott Müller (who is unfortunately ill just now), of the ministry of agriculture, *Agrarstaat oder Industriestaat* (Agricultural State or Industrial State). It appeared in the yellow calendar of Mentzel and v.

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Lengerke, I think in 1902. Another work by the same author ought really also to be read in this connection; this is a paper on "The Development of German Agriculture," written for the Paris Exposition.

Gentlemen, in all that I am about to say I beg you will understand that I wish to make no personal attack whatever and no attack upon any calling or any class of the community. My position is that every branch of economic activity deserves the protection of the State and the protection of the community, but only so long as that branch of activity understands that it must accommodate itself to the needs and demands that the community expects it to fill.

I wish, in the first place, to review briefly the arguments that have thus far been made. I have taken pains to treat the matter in as short space as possible.

RESULTS OF THE BANK INQUIRY.

I have already (in the session of May 20) mentioned the fact that my friends, and, indeed, the whole German people, are especially interested in having the questions that are submitted to the Inquiry answered from the standpoint of the economic interests of the whole community. The two volumes of stenographic reports before us fully confirm the misgiving that I then expressed; much the greater part of our discussion was carried on from the point of view of our great banks. In the report of the whole commission, therefore, we must take particular care that the standpoint of the general economic interests is again given the leading place.

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The following consideration forces us to arrive at the same conclusion. The stenographic reports (filling more than 800 quarto pages) comprise such an enormous mass of material and details that a clear-cut answer to the question of what is to be done can be arrived at only if one can simplify into the clearest possible form the conflict of opinions which repeatedly brought a good deal of excitement into the discussions.

I rest in this matter on the assumption that we shall probably best learn what we wish to learn from our respected opponents.

There are, then, in the stenographic report the following particularly important points:

1. Herr Schinckel said on page 24:^a "All that regulates itself. Any legal interference might injure the development of this matter, too."

2. Herr Kammerer said on page 48:^a "I hold that non-intervention is the very most essential and important element of the case."

3. Herr Roland-Lücke said on page 52:^a "If we did not have to confront economic ups and downs, what would become of the school which, more or less, from generation to generation, creates anew the natural and necessary experience? Where would be the chance for inner contemplation, in which each man, so long as he is in active life, examines himself and asks, What mistakes have I made? So if we could succeed in preventing, with all possible wisdom and scientific method, such crises and complications in the economic world, we should be doing

^aStenographic reports of the entire commission. Remarks of the experts on questions III-V of the list.

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the worst sort of service both to the economic world and to economic science.”

4. Herr von Pflaum says on page 53:^a “Trade and commerce are anyway not adapted to being constantly regulated.”

5. One of the chief points made by Herr Fischel was this, on page 173: ^a “Freedom of business intercourse is certainly the most important and sacred of all our liberties.”

6. Herr Doctor von Schwabach said, on page 316: ^a “If I may be allowed to sum up, I think I shall have to say to the expert who spoke just before me that the general and final result will be that things will remain as they were—that is, in regard to the management of the whole policy of the Reichsbank, and above all in regard to the development of business life.”

Gentlemen, these citations will probably be enough to enable you to draw the conclusion that in the discussions of our bank inquiry, the chief point for us to decide is whether we are for or against free trade in gold, in money, and in credit.

I can here, I am glad to find, declare myself in agreement with Herr Geheimrat Riesser, who, on the first bankers' day at Frankfort-on-Main, as also in his work on the history of the development of the German great banks, and in our discussion here on May 22, explained that the German banking system should not be treated from the standpoint of merely private economics, and that it is growing farther and farther out of the sphere of legal regulation on the basis of mere private rights. A

^aStenographic reports of the entire commission. Remarks of the experts on questions III-V of the list.

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bank, he says, is to-day not simply a business—it is also a public office. Geheimrat Riesser is, therefore, as much opposed to the individualistic or free-trade system as he is to the system of state socialism (p. 174 ^a). Very much to the point! But between these two extremes there is the possibility of public legal regulation with maintenance of private ownership of the means of production. The conceptions of public function on the one hand, and free action or self-limitation on the other, are mutually exclusive. The extremely able argument of Bank Director Gwinner, on May 13, seems to me to be also pitched in the same key. So I am in the very agreeable position of being able to attest that the contention for and against free trade in gold, money and credit has not by any means found the representatives of the great banks all on the same side.

In what remains of my speech I had better, perhaps, consider as a separate question the present system of free trade in gold.

A. FREE TRADE IN GOLD.

The untenableness and absurdities of the organization of the international gold market that prevails to-day, as Doctor Arendt has pointed out (p. 69 ^b), may best be seen in the fact that we have to-day an annual gold production of 1,600,000,000 marks, and that the demand of the United States for 500,000,000 marks toward the end

^a Stenographic report of Subcommission II. Remarks of the experts on question VI.

^b Entire commission. Experts on III-V.

of last year was able to cause such a wide-spread crisis in the international money market.

There is also a really dangerous uncertainty in the position of our domestic gold market itself. Expert Meier of Pforzheim said (p. 317^a) that, according to an inquiry held by the Imperial Department of the Interior at the beginning of the nineties, our industries used up from 30,000,000 to 40,000,000 marks of imperial gold a year. In reality, however, 100,000,000 marks a year are drawn by our industries from the Empire's stock of coin by melting. In the last seven years 665,000,000 double crowns have been coined in Germany. On the other hand, in these seven years manufacturers alone have used 700,000,000 marks—that is, 35,000,000 more than were coined. The gold used in all branches of the German jewelry business combined is estimated by the experts Löwenherz (p. 319^a) and Meier (p. 349^a) at from 130,000,000 to 180,000,000 marks a year.

Then we have also the custom our domestic banks have of sending to any foreign business connection, in return for the small sum of one-tenth of 1 per cent, any desired quantity of our German gold coins—a transportation of gold which is to-day very incompletely taken account of in the statistics. (This is especially true of the transcontinental export.)

Freiherr von Gamp was consequently able to sum up thus the situation of our German gold market (p. 399):^a “We must not deceive ourselves any longer and suppose that we have 3,600,000,000 marks of gold, whereas we really have perhaps only 2,000,000,000, or even less.”

^aEntire commission. Experts on III-V.

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Now, the partisans of free trade in gold have made the following proposals for improving the unfortunate condition of our gold market. In Berlin a new international gold market is to be inaugurated, for which Professor Lotz, in particular, of the Brentano free-trade school, insists upon the necessity of always giving free scope to the outflow of gold into foreign countries (p. 118).^a This free international gold market in Berlin is to be created by the removal of the charge for gold coinage; by longer grants of interest-free advances from the Reichsbank on importations of gold from abroad; by lower freight charges for gold on the steamship lines subsidized by the German Empire; by an increase of the price paid by the Reichsbank for gold; and by the erection of a refinery in Berlin (pp. 59-124).^a

In criticism of these proposals we may point to the fact that even Schinckel and Doctor Wachler (p. 318)^a arrive at the conclusion that the great need of gold felt by our industries should not in the future, as in the past, be met in the main out of our stock of 20-mark pieces. Nevertheless our industries should not on this account be obliged to resort to the free gold market—a point which was established by the expert Meier of Pforzheim (p. 318)^a in the noteworthy observation that “if every individual enters upon the world market to buy gold, gold will become dearer even for the Reichsbank.” In spite of our present annual production of 1,600,000,000 marks of gold the time of the individual buyer seems to be past, so

^a Entire commission. Experts on III-V.

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far as any sensible regulation of the gold market is concerned. This is illustrated by the fact that the Reichsbank has declined to deliver gold to those engaged in the arbitrage business at the frontiers, and that in 1907 the great banks of Berlin refused to draw American finance bills (pp. 135^a and 141, 176^b). In consideration of all these points, only one logical conclusion can be drawn—there must be a consistent abandonment of free trade in the gold business.

The Reichsbank should nevertheless use all available means of increasing, as far as possible, our stock of gold. But the exportation of gold out of Germany should not be free. Every demand for gold which does not accord with our economic interests should be refused. In this category should be included not only the American finance bills and arbitrage at the frontiers, but also the ill-advised practice the banks now have of giving to foreign business connections, in consideration of a charge of one-tenth of 1 per cent, any desired quantity of our gold coins. Our bank act of March 14, 1875, needs, therefore, to be supplemented by a clause to this effect—that any exportation of gold out of Germany in sums exceeding a certain stipulated amount shall require the express consent of the Reichsbank, on the ground of a better protection of our economic interests. Acts contrary to the Reichsbank's decisions on these points, or circumventions of such decisions, must be punished in the same way as violations of the coinage laws. Gentlemen, I should like to refer in this connection to a remark of

^aSubcommission II.

^bEntire commission. Experts on III-V.

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Doctor Ströll, who said yesterday (I think with great truth) that "coined gold is worthy of state protection." I do not mean, however, that it is worthy of protection only against German industries!

Our need of gold for manufactures and trades should be met by the Reichsbank exclusively, which in meeting this need should practice the greatest possible economy with regard to our stock of gold coins. Only on the basis of this privileged position of the Reichsbank will reliable and continuous German gold statistics become possible.

But the necessary keystone of this discontinuance of free trade in gold would be formed by an international syndicate of banks of issue for the unified organization of the purchase of gold. The world market for gold would then for the first time receive a sure basis. Mutual competition on the part of the great banks of issue in respect to the purchase of gold would thus be obviated. And such incomprehensible occurrences as came about last year because the United States needed 500,000,000 marks of gold would be rendered out of the question hereafter under the régime of such a syndicate. It can not but seem desirable that Germany should embrace the earliest opportunity of bringing about such an improvement in the relations of our gold market to the economic life of the world at large.

I shall now go on with B.

B. FREE TRADE IN MONEY AND CREDIT.

The great inconveniences that German economic activity suffered in the past year are still the starting point of

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all our thought for the future. I am thoroughly convinced that one ought not to judge by exceptional years, but I shall endeavor to prove that these exceptional years have, in our country, recurred at decidedly regular intervals. Hence I should consider the idea that we are now forever rid of hardships to be a portentous mistake. The considerations that I am about to submit to you lead me to fear that within a reasonable time we shall be obliged again to face the same situation. This point was very effectively made by the expert Bergrat Kleine, of Dortmund, in the session of May 21 (p. 312 ff.).^a Kleine referred to the fact that "at the end of last year our rate of discount was 7½ per cent, whereas at the same time the rate in France was only 4 per cent; in Spain, 5 per cent; in the Netherlands, 5 per cent; in Italy, 5½ per cent; in Portugal, 5½ per cent; in Austria, 6 per cent; in Belgium, 6 per cent; in Norway, 6 per cent; in Servia, 6 per cent; in Russia, 7½ per cent, and in Roumania 8 per cent." We had consequently the doubtful honor of having as high a rate of discount as any country but Roumania, and a higher rate than any other except Russia. Moreover, the private banks receive a discount 1 per cent higher than that received by the Reichsbank, and also make a charge of about, on the average, one-half per cent for certain extra expenses. So that anyone who could obtain credit at the private banks, but not at the Reichsbank, was obliged last year to pay 9 per cent discount. In the case of building contractors in Berlin, this rate of interest even rose as high as 11 and 12 per cent. But it is not only last

^a Entire commission. Experts on III-V.

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year, but ever since the foundation of the Reichsbank, that we have had a considerably higher rate of discount than the countries with which we have to compete. During the period from 1886 to 1907 the average rate of discount at the Reichsbank was 4.07 per cent; in France it was 2.87 per cent; in England, 3.28 per cent; in Austria, 4.17 per cent; in Russia, 5.44 per cent; in Belgium, 3.29 per cent; in the Netherlands, 3.16 per cent. Thus, with the exceptions of Austria and Russia, which do not much affect our competition in the world market, all other nations have had an appreciably lower rate of discount than ours. This high rate for money must necessarily have upon our exports the effect of an export tax.

It is also the case that from 1886 to 1907 the rate of discount was changed in Germany far more frequently than in other countries; that is, it was changed here 116 times; in France only 29 times; in England, to be sure, 186 times; in Austria only 40 times; in Russia, 50 times; in Belgium, 82 times; in the Netherlands, 52 times. It is clear that these frequent changes in the rate of discount must have a most disturbing effect upon business calculations with regard to other countries.

Finally, another factor enters into the case—that the difference between the bank discount rate and the private rate is greatest in Germany. It amounted, at one and the same time, in Berlin to 1.01 per cent; in Paris to 0.38 per cent; in London to 0.6 per cent; in Vienna to 0.37 per cent; in Brussels to 0.48 per cent; in the Netherlands to 0.34 per cent. We have, therefore, in Germany the most unfavorable circumstances in every department

of the movement of the rate of interest. From this the expert Kleine rightly concludes that it is absolutely essential to introduce a better order of things into the situation.

The advocates of free trade in money and credit (for instance, Doctor von Schwabach (p. 316),^a in opposition to general public feeling on the subject) maintain, to be sure, that "Nothing is more disagreeable to bankers than a high rate of discount." But this assertion is weakened by the fact that, at least at critical times, the Reichsbank has always had the greatest business success when there has been the highest rate of discount. [Laughter.]

A VOICE. Of course, because it is the Reichsbank.

Freiherr VON WANGENHEIM. Thus we have in 1882, with a discount rate of 6 per cent, a net profit of 7.05 per cent of the capital stock; in 1890, with a discount rate of 5.5 per cent, a profit of 8.81 per cent; in 1900, with a discount rate of 7 per cent, 10.48 per cent profit, and in 1907, with a discount rate of 7½ per cent, 9.89 per cent profit. In quiet years this profit was 2 or 3 per cent lower. (Reichsbank statistics of the Bank Inquiry, I, p. 5.) And, moreover, apart from this, the profits of the Government increased from about 15,000,000 marks to 34,000,000. Even Geheimrat Riesser, in his well-known treatise, *Zur Entwicklungsgeschichte der deutschen Grossbanken*, mentions the fact (p. 54, 2d ed.) that in critical times the banks are often able to distribute par-

^a Entire commission. Experts on III-V.

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ticularly high dividends.^a It follows that the interests of the banks are in this matter sharply contrasted with the interests of all the rest of the nation. Any policy, therefore, that has the interests of the whole nation in view will have to discard the free trade now prevailing in money and credit. But since this new system with regard to our money and credit business will therefore necessarily remove the great evils prevailing in this department of our economic life, and since it is admitted that these evils are coincident with what economists designate as an "economic crisis," it becomes necessary to give a separate treatment of this concept and its attendant phenomena.

THE NATURE OF ECONOMIC CRISES.

From 1857 on, we may count up at least the following economic crises, in the modern sense: 1873, 1882, 1890, 1900, and 1907. If we include the crisis of 1857, we find that in the fifty years beginning with 1857 there have been six crises, or a crisis about every eight or nine years. And according to Riesser the history of the development of the German great banks really begins only with the crisis of 1857. It has, to be sure, been maintained that every crisis is different from every other, and one has to admit that two crises are not as like each other as two peas. But these differences are only in the outward phenomena, not in the inner nature, of the crises. In

^a Riesser does not explicitly make this observation, but it can be established by the material that he gives on pages 53, 54, and 325 of the aforementioned book, that at critical times the banks are often able to distribute particularly high dividends.

their inner nature all crises are alike, as the authorities on the subject unanimously agree.

The advocates of free trade in money and credit (for example, Roland-Lücke, p. 52^a) maintain again, among other things, that we could not do without economic ups and downs as a school of mistakes made from generation to generation. The answer to this is very simple; such a school becomes superfluous when mistakes can no longer be made; or it becomes useless for practical economics when the mistakes are not corrected. Analogies from nature have also been pointed to, from which we are supposed to conclude that with all life change is indissolubly connected. Certainly the concept of life and the concept of torpidity are mutually exclusive. We opponents of free trade in gold and credit do not ourselves wish to remove what is normal and sound, but only what is diseased, from present conditions in the domain of the money and credit business. If you insist on having an analogy from natural science in support of our theory, you may find one in the temperature changes of the human body. Everyone knows that even the temperature of a healthy man undergoes certain slight variations. But when this temperature curve moves up and down in sharp zigzags then, in the judgment of the doctors, a serious crisis is at hand, after which there is either a speedy change for the better or else death. The aforementioned six crises since 1857 show many effects in the variations of the rate of interest, as well as in the variations of price, and in the curves formed by the variations of

^a Entire commission. Experts on III-V.

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securities is shown this very characteristic sharp zigzag motion that takes place in a serious crisis of a disease. Our practical politics must succeed in eliminating these variations for the future if our whole body politic is not to be utterly destroyed.

The same view ought really to be supported by all those advocates of free trade in money and credit who in the course of our discussion have come forward with so much energy in favor of giving the Reichsbank a larger share in the foreign-bill business. Their motive in doing this was that the rate of foreign exchange might be rendered more stable. Very well; but if one wishes to bring about greater stability in the rate of foreign exchange one must in consistency help also to eliminate those characteristic sharp zigzag movements which are attached to every crisis. Otherwise one can not escape the just reproach of inconsistency. I hope, therefore, that for the rest of my speech I may count on the warm support of this particular division of the advocates of free trade in money and credit. And is not the gold standard supposed to have been introduced in order that a measure of value might be obtained which should have the greatest possible stability?

But here we meet again with new objections.

1. It is said that it is absolutely impossible to get rid of the zigzag movements at the outbreak of a crisis.
2. If the attempt were really made in critical times to keep the rate of interest low by artificial means, much worse disturbances would result.

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3. Professor Lotz did not see in the events of 1907 a crisis, but only a danger signal, since there were not many bankruptcies (p. 145).^a

4. The automatic regulation of economic development through changes in the rate of discount is therefore absolutely indispensable.

I shall reply first to the third and fourth objections. Anyone who does not belong to the Brentano free-trade school will regard the events of the past year also as a serious crisis. In particular the producing classes in town and country are agreed on this point. Note also this—it is extremely interesting to observe how in this critical year agricultural circles, and especially the agricultural cooperative societies, were much less in danger than were the other trades and professions, and this because of the excellent management of the Preussenkasse and of the cooperative societies under its direction. In the same way experience teaches that the raising of the rate of discount, especially last year, completely failed to produce the effect expected by the scholars. “In spite of the high rate of discount, 17,000,000 marks of gold were drawn out of the country.” (Doctor Brosien, p. 63.)^a “In the past year gold has flowed into the country with the lower rate of interest and out of the country with the higher rate of interest.” (Doctor Arendt, p. 39.)^a And “each time that the discount screw was tightened the demands for credit on the Reichsbank were not diminished, as one would have expected, but on the contrary very considerably increased. Since October 29 we have

^aEntire commission. Experts on III-V.

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had a discount rate of 6½ per cent, and from November 8 until the end of the year we had a discount rate of 7½ per cent. At the same time the bill portfolio of the Reichsbank was increased by 171,000,000 marks, as opposed to an increase of 107,000,000 and 118,000,000 marks, respectively, within an equal space of time in 1906 and 1905. And the demands on the Reichsbank for loans on collateral have within this period been increased by 269,000,000 marks, as opposed to an increase of 140,000,000 and 180,000,000 marks, respectively, within an equal space of time in 1905 and 1906.” (Landsburgh, p. 255 ff.)^a The old scholastic recipe has consequently proved itself ineffective. For this reason too, then, we are obliged to abandon the course of policy as to the Reichsbank that we have thus far pursued.

To the objections given under 1 and 2 above I reply: Means that are “artificial”—that is, not in accord with the inner nature of the circumstances—should certainly not be employed. It was for this reason that we attributed so much value to the expert investigation of these conditions. It was for this reason that this Inquiry was instructed to set forth these circumstances as clearly as possible before answering the question, What means of cure shall be adopted? And here I come up against another grievous mistake made by the advocates of free trade in money and credit—a mistake that is connected with the answer to the other question. From what point is the crisis in each individual case to be dated?

^a Entire commission. Experts on III-V.

Many seem to agree with Professor Lotz that the crisis is identical with the bankruptcy of enterprises. This view does not distinguish between cause and effect. The concept of "disease" in the scientific sense begins, as every one knows, with the setting in of the cause of the disorder. And here we opponents of free trade in money and credit must be particularly thankful to the expert Herr Kommerzienrat Rinkel, who, in the session of May 12 (p. 59 ff.)^a, so effectively explained that the crisis begins with the too low rate of private discount soon after the last smash. At this moment and at this place the natural means of remedy must begin to be applied. For the last dictum of all wisdom is this: We must endeavor to prevent disease. And by far the best social remedy is still prophylaxis. If, then, one is looking for a means that is truly "artificial," one that is not suited to the inner nature of the circumstances, it is to be found in the present unwise raising of the rate of discount, which quietly lets the evil appear and then in the acme of the crisis, when little change can be made in the whole unfortunate situation, applies an unpractical remedy from which only the money dealers derive a clear profit, and every one else derives nothing but injury.

I rest my further observations on the following view: Our development to-day in the business in money and credit is in all respects an unsound one. Hardly has a crisis ended with the smash and do matters seem to be adjusting themselves in their normal courses when, with the excessively low rate of private discount, the germ of disease for the next crisis in the economic life is sown.

^a Entire commission. Experts on III-V.

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We have to-day in fact no normal, healthy economic conditions whatever. For this reason the proper means of improving the situation must be applied permanently.

There has been much talk to the effect that times may arrive which are difficult to deal with because the Reichsbank and all the great banks are full of money that they can not invest. I should like to refer here to a certain aspect of our economic situation and to commend it to the very particular attention of our banks. Gentlemen, you forward to-day, especially through the agency of the banks, great quantities of foreign enterprises, and you unhappily fail to observe how many opportunities we still have at home of investing money at advantageous rates for the general economic good. In my own special province, the cultivation of the German moors, this becomes very clearly apparent. I have always felt positively distressed by the fact that German capital now goes outside the country in order, for example, to drain the Pontian marshes, while up to this time it has been impossible—even for me, in spite of the great efforts that I made to draw attention to the matter last winter, on the occasion of the quarter-century jubilee of the Association for the Cultivation of the German Marshes—up to this time, I repeat, it has been impossible even to attract the notice of our financial circles to this side of our national economic life. Please understand—the statistics hitherto have not been quite exact—that there are probably in Germany over 500 square miles of moor at our disposal, of which an extremely small part has hitherto been cultivated; and that we could to-day, with a rational system of cultivation,

bring a large part of our heaths to a state of high productive capacity. Please understand, further, that in a very considerable part of the area now used for agricultural purposes an enormous increase of production might be obtained if we were able, with the money that is now invested in foreign enterprises, to do continuous work and on really large lines to improve the condition of the small agriculturist through the introduction of rational methods of agriculture. Precisely at those times when it is often very difficult to invest money profitably it would be a national duty to spend this money as far as possible in our own country and for investments of this kind. It is true that the rates of interest will not be exorbitant, but they will certainly be able to hold their own in competition with the rates on state paper.

What, then, is the exciting cause of the disease in the case of our great economic crises? This question also had best be answered first by an account of the development of the present conditions.

First of all let us describe the course of the economic crisis.

As soon as, after the last crash, the confidence of the people has been in a measure restored, the great banks begin to place money at the disposal of the market at a low rate of discount. According to the present system of free trade in money and credit, the height of the rate of private discount is determined exclusively in the interests of the private undertakings of the bank in question. What other interests can there be? A foreign state, like Russia or Austria, is interested in the consequences of a new issue of

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its securities. Therefore, through the medium of a great bank, it places millions as cheap money at the disposal of the Bourse. In all these and similar cases the business calculation by which a low rate of private discount—even lower than the net cost—is brought about is just as clear as the actions of the bear on the corn exchange, who sells his wares below cost in the open market in order thereby to obtain the larger profits from his final speculation in corn. A very low rate of private discount is indeed the soul of successful flotations. If 4 per cent Greeks are put on the market and the rate of private discount is 4 per cent then nothing results. But if at such a time money is offered at $3\frac{1}{2}$ per cent, then the speculators have a business opportunity; they may take over the 4 per cent Greeks at par and pay with money borrowed at $3\frac{1}{2}$ per cent. The final profit on exchange is an additional advantage, and as soon as the period of successful new issues is introduced, then the love of speculation is again aroused in the people. Their own possessions become weighed down more and more with mortgages and loans on collateral, and bill credit and current-account credit from the banks and from other enterprises, in order that they may avail themselves of more and more money for participation in more and more enterprises of all kinds. At such times money is virtually forced upon the people by the credit institutions, as was shown especially by the expert Bernhard (pp. 48-51).^a And in case an individual bank does not wish to take part in these anxieties of speculation with credit it is driven into doing so by competition. This unsalutary

^a Entire commission. Experts on III-V.

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influence of competition in the direction of the development of a more precarious credit, which is of course added to by the love of speculation aroused in the people, has often been the subject of remark in this Inquiry. Thus Doctor Moritz (Eichborn), on page 34,^a Von Mayer (Hannover), on page 53,^a and even the director of the Dresden Bank, Doctor Mueller, on pages 55 and 31,^a have spoken about it. The last-mentioned speaker shows how the banks are compelled through their connections with foreign countries to grant still more credit abroad, even when money at home is dear, for the sake of maintaining these business connections. The expert Bernhard was able to refer, on pages 21-23,^a to the fact that through establishments that are offshoots of our banks this granting of credit to all the world is greatly furthered by the speculation in foreign securities in Germany, and that, according to the calculation of the *Frankfurter Zeitung*, within five and one-half years (ending with the middle of 1906) actually 3,500,000,000 marks were spent in introducing foreign securities into Germany through our banks. How generally throughout the banking world this excessive and unsafe granting of credit has spread like an epidemic may be most strongly established by the explicit confession of the new Reichsbank President, Herr Havenstein, who says that even the Reichsbank itself has in the last two years "often passed beyond the bounds of what is safe in the granting of credit" (p. 83). Likewise on page 87:^a "Our whole economic life is built up on credit more and more, in a way that is becoming hardly safe." And he says that on

^a Entire commission. Experts on III-V.

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December 7, 1907, an order was issued to all the offices of the Reichsbank directing them to discontinue every grant of credit that "rests simply upon a money-making scheme." It is well known what terror this order caused in circles far and wide, and with what great leniency it is therefore applied. Drastic examples of this granting of credit even by the Reichsbank are mentioned also by the expert Lansburgh on pages 285 and 286.^a

Thus whole branches of industry at home and abroad owe their existence to the promoting activity of the banks and bourses—for example, the Luxembourg iron industry. And the look of the business situation in the great banks shortly before the general break-up is very adequately characterized by Geheimrat Riesser, in his book *Zur Entwicklungsgeschichte der deutschen Grossbanken* as follows: "Sudden increases in the demands for credit, which become more and more conspicuous; great and finally complete withdrawal of certain bank credits; crowding out of short-time credit through long-time credit; increasing prevalence of the extension of bills when they fall due; a constant increase in the offerings of second-class securities and securities not acceptable for banking purposes; the use of banking credit, especially of acceptance credit, on the part of industry not for the current needs of the trade, but for the payment of dividends or for a considerable increase of the fixed capital (increase of investment, purchase of machines, lands, etc.); continued taking of advances when the object of the expenditure is either not given or else largely concealed; more and more hesita-

^a Entire commission. Experts on III-V.

tion in calling in at the proper time the payments that fall due; large and sudden changes in prices, particularly in the prices of raw material and merchandise; finally, an excessive number of promotions, reorganizations, and flotations, and the institution of a vast number of mere subsidiary companies—ancillary and trust companies.”

At this stage it is perfectly clear that the banks can not get rid of the spirits they have evoked. All resources are tied up. When the heavy obligations involved in the great speculative enterprises have to be met, the further carrying on of business becomes more and more difficult; the claims made upon the central banks of issue become more and more disquieting; money on call becomes dearer and dearer. Any chance event may now lead to the collapse of the whole fictitious system of values. This collapse then runs its course in the form not only of bankruptcies but also of readjustments, of falls in prices of goods and stocks, reductions of wages, formations of syndicates, and the absorption of the small and the average speculators by the large ones—until, after another general quieting down, the whole game begins anew with the low rate of private discount.

After the collapse, the business life on the Bourse becomes just as noticeably quiet as at the time of the springing up of speculation it is noticeably feverish in its activity. This general absence of business after the collapse is quite independent of differences in legislation affecting the Bourse. The expert, Doctor Arendt, refers (p. 20)^a to the fact that on May 11 of this year 300 members of the London Stock Exchange were unable to pay their

^a Entire commission. Experts on III-V.

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dues. The distress was just as bad in the bourses of Brussels and Paris, as well as in Berlin.

Now, for the economic effect of this crisis: The development to which our social order is tending in consequence of this free trade in money and credit is very well described by Prof. Adolf Wagner in the words: "Aristocracy of money; yes, plutocracy" (p. 261).^a And anyone that is somewhat acquainted with the history of the development of nations knows that this means for every nation the beginning of the end. About sixty years ago, according to this same passage by Wagner, there were in what is now Prussia only 100 persons with an income of more than 100,000 marks; now we already count 3,000 such persons. The part of the population that pays a property tax forms every year a smaller fraction of the whole population. It fell steadily from 14.14 per cent in 1895 down to 13.78 per cent in 1905. The first 10,000,000,000 marks of property was still owned in Prussia in 1896 by nearly 3,000 persons. In 1905 the first 10,000,000,000 was found to be divided among only 1,500 individuals. While the whole wealth of Germany has increased by at most a third since the beginning of the seventies, the capital commanded by the great banks of Berlin has within the same time increased tenfold. And this gigantic power is wielded, according to the testimony of the expert Heyman, of Berlin (p. 6),^a by 12 or 13 people. Already in 1905 385 German industrial syndicates, comprising 12,000 establishments, were connected with these great banks. While wealth is thus being concentrated in fewer and fewer

^a Subcommission II.

hands, the number of workmen in the trade unions in Germany has, according to the expert Kleine (p. 313),^a increased from 3,473,000 in 1886 to 8,625,000 in 1907—that is, in twenty-two years there has been a 248 per cent increase in the number of wageworkers. With the more and more widespread eagerness of the people for speculation and for pleasures, to which already half the wealth of the German people is devoted in the form of stock-exchange securities, the migration from country to city stands in the closest causal relation. Prof. Adolf Wagner has pointed out that by this extension of plutocratic rule the movements of the population are also controlled. According to the material collected by Professor Ruhland in his *System* (vol. 3, p. 173 ff.), the population is also affected by the plutocracy in such a way that it ceases to increase. The fact that to-day no one thinks any longer of economy has been the subject of repeated complaint in the inquiry, as by Menck (p. 322)^a, but in especial by Bank Director Gwinner (p. 177)^a, who said: “Everyone has considered himself richer than he is, and all have spent more than they could afford. There has been no lack of work; but there is even now a lack of economy.” The deceptive idea of “being richer” is, however, particularly called forth through the influence of speculation upon the course of prices; only in this way could the prices of the securities dealt in on the New York Stock Exchange have lost in the past year \$4,000,000,000, or 17,000,000,000 marks. The middle class is in a situation of greater and greater difficulty. Money is drawn away from the prov-

^a Entire commission. Experts on III-V.

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inces and from the middle class and applied to large enterprises, as the expert Marwitz (p. 45)^a has in particular established. In consequence of crises a more or less large number of day laborers are thrown out of work, while previously not enough could be done, working day and night.

But the phenomena of international economic competition may also be traced back to those international establishments for the opening up of new lands, which, after each year of crisis, go into the world market with excessively cheap offers, and thereby cause those phenomena of overproduction from which the agriculture of central Europe has had to suffer so much. (See the special investigation of the subject by Prof. Dr. G. Ruhland.) The character of the agricultural competition of the United States may be most briefly indicated by the fact that from 1856 until the present time the American railroads have been insolvent to the amount of about 42,000,000,000 marks, of which European capital formed at least a half. Finally, mention should be made in this connection of an expression of Field-Marshal Count Moltke, which is to be found in the preface to the popular edition of his book on the Franco-Prussian war, and which reads as follows: "The great conflicts of modern times break out contrary to the will and the wish of the rulers. The Bourse has in our day acquired an influence so great that it is able to call an armed power into the field to fight in its interests. Mexico and Egypt are invaded by the armies of Europe in order that the demands of high finance may be liquidated." Since then our wars

^a Entire commission. Experts on III-V.

have become "money wars." Note, for example, the Spanish-American war, the Boer war, the disturbance in China, the conflict with Venezuela, the Russo-Japanese war, etc. This is the horrible reverse side of what is generally described as our modern strong position in the commerce of the world, attained through the international relations of our banks. And this is the aspect of the case which Bank Director Mueller of the Dresdener Bank has not set forth.

And now for the question, What is the exciting cause of the disease in our modern economic development?

It is very far from my mind to cast the blame for our economic crises upon any individuals whatsoever. Whoever has concerned himself somewhat seriously with historical problems knows that not persons, but ideas, bear the real responsibility. We have been living since the beginning of the fifties, and especially since the beginning of the seventies, in the age of free trade in money, gold, and credit. And the effects could not have been other than what they have been. Meanwhile, however, we recognize more and more clearly that this path leads to no good end. And so the days of free trade in gold, money, and credit must also be numbered, just as the days of the vassal state and of absolutism were numbered. All those, indeed, who conceive the task here set before us in the sense I have indicated, who recognize this as the true situation, and who nevertheless do not do what they can to introduce the new and better order of things which the case demands—all these will assuredly render themselves personally responsible for all the economic ills that will consequently overtake the German people.

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The true cause of all our economic crises can no longer be the subject of any doubt after what has been premised. It lies in the great abuse of credit for uncertain and therefore unsound speculative purposes. I will not here devote any more exhaustive discussion to the meaning of "speculation." Every expert knows what sort of speculation I have in mind. It is empty speculation in the broad sense, which creates no values, but only transfers values created by others. This transference of values extends to the products of others' labor in the past, the present, and the future. Connected with all this is the fictitious creation of values, whose soap bubbles tend to burst more or less completely in every crisis.

The symptoms of this reprehensible misuse of credit have all been rightly described in former discussions of the subject. Bank Director Gwinner spoke on page 97^a of the precipitate tempo of our development, which leads to the mischievous custom of putting up new factories out of borrowed money. Prof. Adolf Wagner (p. 33)^b and others have referred to the feverish haste of our economic development, which discounts in the present the product of labor that is only to be performed in the future, the result being always that after a few years the cart gets stuck in the mire. In particular the order of the president of the Reichsbank issued on December 7, 1906, establishes a sharp distinction between sound and unsound credit, even though it has reference immediately only to bill credit. The bank officials are instructed to subject the bills to a

^a Subcommission II.

^b Entire commission. Experts on III-V.

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very careful test with regard to their business origin. Those bills which are drawn for the purpose of permanently acquiring working capital, not to speak of those which are based solely on money-making manipulations, are to be treated with great circumspection. The object should be to accept only bills that are sound, that are based on actual business transactions, and to reject factitious paper. *Rembours* bills the Reichsbank has never refused to buy, but it has refused to buy drafts by foreign banks upon domestic banks after it has been found upon closer investigation that it was a matter of finance bills (p. 305).^a The president of the Preussenkasse, Doctor Heiligenstadt, sought therefore (p. 136)^b to express the distinction here in question when he distinguished between covered and empty bankers' bills. The expert Bernhard emphasized in this connection the point that the certainty that bills will be redeemed can no longer be taken as the principle by which to judge them, since it has been found by experience that the bills which in general are most sure to be paid are always the fictitious bills, the pro forma bills, and the accommodation bills. But if the origin of credit from sound economic processes is absolutely required for its justification, then all empty and speculative demands for credit are at once seen to be unjustified, and with them also the business of dealing in bills (p. 147).^a Freiherr von Gamp has observed in a number of cases (e. g., pages 140, 157, and 295^a) that not only unsound bills, but also unsound credit on collateral

^a Entire commission. Experts on III-V.

^b Subcommission II.

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loans, if it stands in no relation to sound business processes, should be ruled out. Bank Director Gwinner called attention (p. 176^a) to the fact that in recent years almost everybody has universally regarded it as sound business to take their stocks to the bank and speculate with the money advanced on them. Thus even the well-to-do rush into debt to slake their thirst for speculation, and often do so to the very limit of their capacity. This must, of course, lead to a serious crisis, with unbearably high rates of discount, which in turn render it extremely hard for productive industry to make progress. For this reason this kind of business must be characterized as unsound. Doctor Arendt rightly laid stress on his idea that the international business in speculation is a much more decisive factor in determining our balance of payments than the whole volume of our trade (p. 20)^a. Our national economic situation suffers, according to the expert testimony of Leiffmann (p. 15),^a Bendix (p. 16),^a Kaempf (p. 18),^a Fischel (p. 37),^a and others, under an adverse balance of trade. It will also, therefore, be necessary in the international business in payments and demands to test the origin of the demands (*causa debendi*) and decide whether they are of a sound and economically justified character. And, finally, it is indispensable that we at once subject to a careful revision the whole body of principles of our banking policy, including the provisions of our bank act of March 14, 1875. If it is customary, as Adolf Wagner says it is, for the great banks to go on doing business with the last available penny (p. 172^b), this may

^a Entire commission. Experts on III-V. ^b Subcommission II.

seem permissible according to an extremely individualistic conception of the activities of banks. But as soon as we recognize with Geheimrat Riesser that there is a growing tendency for the activities of banks to be molded by public regulation, then we must see that the principle of "getting something out of" the last penny forces us necessarily into unsound and economically dangerous business, and is very largely the true cause of the constant reappearance of the germ of our disease—the gross misuse of credit for unsound speculative purposes. The same consideration holds for section 12 of our bank act, according to which it is provided that the Reichsbank has to look after the utilization of its available capital, and is directed to regulate the circulation of money only within the Empire, and to facilitate the balancing of payments. These provisions must clearly be essentially modified if free trade in gold, money, and credit is at length to be abolished. The utilization of available capital should manifestly be limited by the presence of sound, economically unobjectionable demands for credit. The facilitation of the balancing of payments should be directed only toward such payments as are proved to have an economically justifiable origin. And the regulation of our gold and money affairs must obviously extend beyond the Empire, since it is now precisely international business that has such an injurious effect upon our economic conditions in consequence of an unwise regulation of that business.

Only upon the basis of these principles can our economic life be gradually cured of its ills. The rejection

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of unsound speculative credit stands in the closest relation to the general and very dangerous indebtedness of the people. With the rejection of such credit all those efforts are bound up which are directed toward the introduction of a cash system into the business world. All the different efforts that are made to relieve landed property of its debts are also connected with this. When new constructions and extensions of old ones, and, of course, the distribution of dividends and shares, have as a basis an actual corresponding amount of money or property, when the buying of stocks is restricted to the accretions caused by our economy, and when all demands for credit have a foundation in legitimate business, then, and not until then, will the rate of discount exhibit a quiet and steady downward movement; then, and then only, will a constant, ample, and cheap supply of money be available for the purpose of encouraging productive labor in town and country; then, and then only, shall we be freed from the worry over an adverse balance of trade; then, and then only, will that unsound, precipitate, feverish energy disappear from our business life, that energy which has increased the capacity of certain industries until they now produce ten times the quantity for which there exists a real demand; then, and then only, will this state of things give place to a quiet, but even and constant, progress. Every one knows that one makes much more progress in walking by taking good, even, steady steps than by short runs and long pauses for getting one's breath. The lower classes have, it is true, profited considerably from the existing system, but they

have to be subject to the frightful risk of periodic unemployment. The independent middle class is to-day noticeably deteriorating. Riches are concentrated more and more in a few hands, and here they serve only too often to bring about ruin. The reform I have advocated is directed toward steadily encouraging the constant, but for that very reason more and more rapid, progress of all parts of the working population. If at the same time the seeking for pleasure and the rage for speculation should retreat step by step, this would be pure gain for our body politic.

CRITICISM OF THE FREE-TRADE PROPOSALS
OF REFORM.

Our latest development in the domain of the money and payment business was criticised by the expert Doctor Arendt (p. 80^a) in the following words: "If by means of checks and post-office savings banks and small notes and all such methods we diminish the reserve gold circulation in the hands of the people, then we lose security in critical times and we find ourselves in the situation of having our whole coinage system rest on nothing but paper." Kommerzienrat Rinkel has especially pointed out (p. 61)^a that through the law concerning checks the banks are given the extremely important privilege of carrying on a stamp-free business in checks, without reference to assets. "Every banker in a crossroads town can have checks drawn upon him against which there are no assets. But when a check is drawn on Krupp, that check

^a Entire commission. Experts on III-V.

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must be stamped. This is a privilege of the banks as distinguished from all other tradespeople. But if the banks have the privilege of putting out into the world the check, which is after all a substitute for the bank note, then everyone must admit that the same guaranty may properly be demanded of them as is demanded of the notes of the Reichsbank, which must be covered by gold to the extent of one-third." It is very plain that the modern facilitation of the payment business harbors the frightful danger of our falling more and more into the general habit of accumulating debts and into the very regrettable misuse of credit for unsound purposes. So much is said and written nowadays about financial mobilization. At any rate, this very dangerous general indebtedness is in sharp contrast with any such mobilization, even for the rich. In this way years must come in which every declaration of war is followed by the immediate bankruptcy of great departments of our whole economic system. And the next crisis, upon which, to judge from our experience, we may count in about eight years if the present system is retained, will necessarily be even more serious than the last. The recent laws directed toward the facilitation of payments absolutely require important supplementary clauses calculated to prevent a far greater misuse of credit than any we have hitherto experienced.

One of the members of the commission, Herr Fischel, defended (p. 325^a) the placing of foreign loans in Germany on this ground: "We need an increasing indebtedness of

^a Entire commission. Experts on III-V.

foreign countries to ourselves in order to be able to pay for our increasing importation of foodstuffs." Now, by far the greater part of the people pay for their bread with the earnings of their labor, not with interest on debts which foreign countries transmit to us. If, therefore, Herr Fischel has at heart the nourishment of the German people, he must first of all help to prevent the interruption, through crises, of the opportunity of Germans to work; and he must help to bring it about that, when new agricultural countries competing with ours are opened up—as in the case of Mesopotamia—the mass of our agriculturists do not fall into new distress. Under these circumstances we shall earn more at home, and shall at least be better able to pay for our bread than we are with these periodic crises and a somewhat larger indebtedness of foreign countries to us. Since we can not have both—that is, both an increasing foreign debt to us and a constant opportunity at home for work and for production—it can hardly be questioned which policy is the better for the German people, not counting the banking class.

A good deal of space has been given in our discussion to the question of whether the Reichsbank ought to make more of a custom of buying up foreign bills than it has hitherto done. And on May 12 of this year the Reichsbank had already in its possession foreign bills to the value of 112,000,000 marks, whereas last year at the corresponding time its foreign bills amounted to only 36,000,000 marks. The buying of bills such as these, drawn upon foreign countries and paid in gold, ought to furnish to the Reichsbank the means of rendering our rates of

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exchange with foreign countries more stable, and of obtaining gold from them in time of need, when a crisis is approaching—for instance, in case of war. The Austro-Hungarian Bank seems to have been in recent years particularly successful in thus keeping its rates of exchange tolerably stable. But in dwelling upon this we forget several things. We found out last year by experience how hard it is to obtain large sums of gold from the free market of foreign countries. The United States needed 500,000,000 marks of gold. This threw half the world into serious financial difficulties, and France, Germany, and England had to combine—at a perfectly peaceful time, too—in order to collect this amount of gold. It is certainly difficult to imagine how, after a declaration of war between European powers, the billions that will be consumed in the first European war are to be raised in like manner without an economic catastrophe extending over half the world. The expert Löwenherz, a banker in Berlin, has for this reason very aptly declared that the purchase of gold is without a doubt to be preferred to the purchase of bills. Gold is a palpable and everywhere available means of payment, while bills are a promise to pay at some future date. Prussia has hitherto held to the safe principle that only ready money is to be counted as forming part of the preparedness for war. Would it be well for the German Empire now to adopt the custom of counting promises made in foreign countries to pay at some future date—promises the fulfillment of which requires, under certain circumstances, the mediation of business friends in neutral states, since in case of a war with England the

English banks will certainly not be willing to give to the enemy the unmistakable support of honoring its bills with gold? And how little would this foreign-bill policy avail in face of an economic crisis! The real efficient cause of crises—the misuse of credit—is left free and unrestrained, while we buy through the Reichsbank some 100,000,000 marks of foreign bills, in order to palm them off on foreign countries by way of a slight mitigation when the rate of exchange on our bills is rising. Essentially, as the expert Löwenherz again explains in the passage I have mentioned, the purpose that these bills serve is that of satisfying the speculative demands of high finance. The more foreign bills the Reichsbank buys the more bills can our great banks draw on their affiliated establishments and business connections abroad. The whole (ostensibly preventive) foreign-bill policy of the Reichsbank will consequently have the result that so much the greater quantity of empty bills are drawn by us upon foreign countries. It is, therefore, difficult indeed to see where, outside of great-bank circles, the advantage of this policy of the Reichsbank comes in.

THE REMEDIES I PROPOSE.

Bank Director Gwinner—who, on page 99,^a admitted, as a farseeing politician, that there is some confusion in our banking business, that the exaggerated tempo in our economic development is matter for regret, and that consequently something must be done—wished that we might have clear and simple laws and intelligent judges. With this demand I have but to express my complete agree-

^a Entire commission. Experts on III-V.

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ment. Nor should any blows be directed at the great banks, as Gwinner fears they will be. For the matter in question is, as I have already explained, not a condemnation of individuals, but the introduction of a new idea. But if the receipts of the banks should be diminished through a radical prohibition of unsound speculation, then with the great concentration of the banking business that exists to-day there is nothing to prevent us from introducing an increase in the rates of commission for all regular banking work—at least an increase to the point at which they stood at the beginning of the sixties. But as for the promised virtue of self-restraint on the part of the leaders of the banking world, much as I value this virtue in particular instances, I can make but little of it as a contribution to my proposed reform. As was the case in the large industries before the legislation for the protection of the workingman, so in banking, too, free competition tends toward a deterioration in business habits and customs. Here, too, therefore, legislation must step in to help and improve. Nor is this anything of an innovation—a point upon which Prof. Adolf Wagner has already laid stress in the course of the discussion. By the bank act we took away the freedom of the private banks of issue. Through the establishment of the gold standard we abolished free coinage of silver. We have special public regulations for the mortgage banks, the cooperative societies, and the savings banks. Furthermore, we have lately by law—especially by the check law—granted to the private banks new and decidedly important privileges. Our State would be committing an actual neglect of duty if, after the experi-

ences of the last crisis, it did not take charge of bringing better order into our dealings with gold, money, and credit.

All the details of my programme I have already given in the course of my speech. Nothing remains now for me to do but to sum them up.

The principle of the reform consists in the abolition of the present freedom of trade in gold, money, and credit. My proposals for the better management of the business in gold are given under A. Here I shall confine myself to proposals as to the money and credit business.

In this direction there is above all a most pressing need of a rational restriction of the utterly inordinate amount of our debts. This restriction must proceed on the lines of the demands made by sound, legitimate business in our own country. Credit must be refused to all baseless speculations of whatever kind. We must break away from the principle of banking management that prevails to-day, that all available means must be profitably invested. The credit business must be managed in accordance with the demand for credit for legitimate operations. Any lowering of the private rate of discount below the Reichsbank's rate of discount in order to stimulate speculation must be prohibited, as a matter of principle. The rate of private discount must be fixed in accordance with the rate of discount at the Reichsbank. The present unrestrained liberty of flotation of domestic and foreign securities must also cease. And in the bill business, as in the collateral-loan, check, and current-account business, proof must be demanded in every case that there is a foundation in the shape of sound and bona fide business.

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In the general economic life the transition from the present state of affairs must be managed with as great care as was used by the Reichsbank administration on the occasion of the recent cleaning up of its stock of bills. It will therefore not be possible to confine ourselves here to the proclamation of new laws. It is almost more important to create a special organ, an independent central office, as a department of control, as was proposed by Professor Fassbender in his written opinion on page 280,^a and by Prof. Adolf Wagner years ago when he was writing about the control of issues. This office must be placed under the direction of the chancellor of the Empire and provided with all powers that are suited to its great task—the task of preventing for the future the recurrence of general crises in the domain of money and credit. For this purpose there should be a concentration upon this office of the whole administration of justice, so far as this problem is concerned. This office should further be required to make each year a public report with practical proposals for the supplementing of its powers with reference to the task assigned to it. Experience will show in a few years whether the right men have been appointed for this office or not.

Finally, there must be created a very thorough and widespread public understanding of the whole traffic in gold, money, and credit in its relations to sound business transactions and to unsound speculation. This must be accomplished by means of prescribed yearly accounts, bimonthly accounts, and running reports of the more

^a Subcommission II.

important business of the day. On the basis of the international syndicate of central banks of issue which I have suggested, a better regulation of the international payment and credit business would be easily arrived at.

Finally, I should like here to touch for a moment upon an old pet scheme of mine, which Herr Geheimrat Freiherr von Gamp has already brought forward so ably in the session of May 20. I think that there might be a combination of all those banks which already have the character of deposit banks (there are, according to the incidental remark of the president of the Reichsbank, already about twenty of them) and of all those persons or corporations and offices who might be willing to enter by a special declaration into a specific obligation to refrain, for a considerable period of time, from all speculative business in state securities—that there might be formed a combination of all these for the purpose of dealing in $3\frac{1}{2}$ per cent state paper on the basis of the nominal value. Then this class would at least be sure to lose nothing henceforth through changes in the price of such paper in the open market. This paper would, of course, have to be excluded by law from being dealt in on the Bourse.

Gentlemen, such are the proposals I wish to make to you. I know that they will not meet with any excessive cordiality at your hands. But I have considered it to be my duty, in the interest of those portions of the people which I represent and whose ideas I have here expressed, to have these general views embodied in the report of our proceedings. It may be that in the Reichstag they will meet with approbation and fulfillment.

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Doctor RIESSER. I wish first of all to declare that I consider it to be out of the question—and I, for one, must refuse to join in such a discussion—that we, who have been called together to express our views only upon particular stated subjects, should give voice to our opinions as to the right and wrong of an economic system that is a complete departure from that we have thus far had—a system which would shove back the whole of our present economic arrangements to the happily bygone conditions of earlier times, in which Berlin was a village and Germany a geographical concept and a *quantité négligeable*. I think, therefore, that the circumstances demand that we refrain here from going into the details of this proposition, and that we wait and see whether the arguments have sufficient convincingness and inner worth to persuade any considerable portion of the nation that, in spite of the fundamental changes that have taken place meanwhile in our whole economic situation, we must give up, without regard to all previous successes, the whole economic system that we have been pursuing, and must go over to the new system which has just been explained to us.

I wish to make another observation. Since Freiherr von Wangenheim has himself stated that the memorial that he has read to us was drawn up partly by himself and partly by another, I will not suppress my conviction that the greater part of this memorial, as seems to me to be proved by the evidence of many quotations and the repetition of diverse cherished ideas, owes its origin to Herr Professor Ruhland——

Freiherr VON WANGENHEIM. That is so.

Doctor RIESSER. Who has, indeed, already had the opportunity, as an expert, of developing his views here—I may say, by the way, that he did so against sharp and effective opposition, and that I, too, can not fall in with them—and who has now simply repeated these views of his.

Whereas in his text-book he lays down the proposition that whoever puts forward new economic ideas that are of value to the community should receive not only a patent free of charge, but also a compensation from the State, he will not be surprised, after what has been said, if I for my part am convinced that the advocacy of the views expressed in the memorial will hardly avail to establish a claim to a free patent and state remuneration.

And one more personal word. As I have already explained to Herr Professor Ruhland himself, I stand by every word that was quoted by him on a previous occasion and by Herr Von Wangenheim to-day from my book *Zur Entwicklungsgeschichte der deutschen Grossbanken*, in so far as my words have been rightly quoted, and have not been torn from their context in order that they might be made to prove something quite different. In particular, I wish expressly to assert that I can not subscribe to the view—still largely entertained by the parties interested—of our banking system as purely individualistic and a matter of private business, a view which, as is evinced by the drift of opinion among a section of our manufacturers, is not at all identical with the “free-trade” position with which it has been confounded in the memorial. On the other hand, I must

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affirm just as emphatically that the exaggerated views regarding state socialism entertained by Professor Wagner and others appear to me fraught with just as much danger as the exaggerated theories regarding the noninterference of the State in private undertakings. I must, however, protest energetically against my being misquoted. This applies to the assertion, which I am alleged to have made, that banks pay out especially large dividends at a time of financial crisis, the implication being conveyed that the banks are eager to make the most of financial crises and that they even welcome them. I acknowledge my children, but I am not obliged to let children be put off on me, and this is a changeling that I never brought into the world. [Laughter.]

The CHAIRMAN. Herr Geheimrat Wagner will be permitted to make a personal remark.

Doctor WAGNER. My name is frequently mentioned, gentlemen, in the document of Herr Von Wangenheim. I shall not deny that in the main the opinions I entertain are correctly stated in it. There is only one point about which I am in doubt. I am unable just at this moment to settle the matter. It is something about an expression which is mentioned as having occurred in a treatise prepared by me many years ago. I shall leave the point undecided. I can not deny that I share certain fundamental views which the speaker has propounded.

On the other hand—this I shall say merely by way of an addition to a personal remark—I consider it utterly impossible, unless we are willing to sit here for weeks and months, for a commission like this to enter into a minute

discussion of the subject that has just been brought up. We are asked to deal with a very far-reaching programme, in favor of and against which many arguments can be adduced, but a thorough discussion of which at this time and place is impracticable. I believe I have not misconceived Herr von Wangenheim's purpose in supposing that he merely desired to submit a memorial to us [movement of approval], and as such, as an expression of his fundamental views, I consider his paper excellent.

Mr. SCHINCKEL. I intended to take the floor merely in order to add a brief remark to what I stated yesterday. I must, however, say a few words with reference to what we have just heard.

It is not my intention, of course, to enter into the details of this memorial, which sets so ambitious a programme before us. It has been asserted that the author of it is Professor Ruhland himself. But the fact remains that it was presented by our worthy colleague in this commission, Freiherr von Wangenheim, and he has certainly appropriated it. It is therefore due to him that we define, however briefly, our position with respect to this matter.

I must say that this memorial has come as quite a shock to me, not because I can not bear the burden of the reproaches which it heaps upon all those who have a share in our present-day economic activities, but because it is an evidence to me that our hopes that the discussions of this commission might bring about a compromise between conflicting opinions have been shattered. There is an unbridgeable chasm between the views expressed

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in this memorial and those held by me and many members of this commission

I need not say that I have no personal pique in this matter. It is my purpose merely to call attention briefly and calmly to some points which, in my opinion, ought not to be allowed to go uncontroverted.

Freiherr von Wangenheim affirms that agriculture is in reality the sole agent of production. I had flattered myself that I had proved pretty conclusively yesterday that trade is also productive. There is no use in my going further into this matter. I do not believe that Herr von Wangenheim would understand me. But Herr von Wangenheim has also asserted that industry is not an agent of production, but that it is in reality a business whose aim is to impart superior quality to the commodities produced. Herr von Wangenheim will perhaps be kind enough to admit, then, as an agriculturist, that agriculture is nowadays also a business that simply improves the quality of things. Industries manufacture from the raw materials articles of consumption. Agriculture is not capable of doing anything else. It sows and reaps. In between, however, is the operation of imparting quality. That kind of agriculture which would be content to-day with letting everything grow as it pleases would be sure not to produce anything. Agriculture is also obliged nowadays to make use of extraordinary means in order to improve its products, such as artificial manures, machinery, etc. But, as it is, agriculture—that is a point on which to lay special stress—will never succeed in producing more than what will

just cover its expenses unless it is willing to concede to trade the rank and importance which it actually possesses and which agriculture, for some unfortunate reason, has continued to begrudge it. Agriculture can no longer exist—at least it can not produce a surplus for the good of the German people—unless it enlists trade in its service.

This brings me to that remark about the cultivation of our moorlands, which stirred my sympathies so powerfully. Well, what is it that hinders so greatly the cultivation of our heaths and moors? Why, the lack of means of transportation, and nothing else; and it is the agricultural interest itself that, for reasons which I have hitherto been unable to fathom, sees to it that no more canals are constructed and that the question of transportation is denied the consideration which it deserves. I protest against the charge that German capital is not sufficiently interested in such matters. On the contrary, too much money is paid out for value received in undertakings of the kind in question. To begin with, excessively high prices have to be paid for the estates, as well as the heaths and moorlands, that are to be bought. To this must be added the fact that the wages of laborers are much too high, which is a great obstacle to the carrying out of the necessary projects.

So much for agriculture. I do not care to go into details.

What impressed me most painfully was the idea that our money, our gold, and our credit are henceforth to be placed under a protective tariff. Well, if the agricultural interest were actually to succeed in bringing this

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about, it would, of course, be the end of all things. It would mean nothing more or less than the sacrifice of our monetary standard, for which we have striven and fought so hard, and for the sake of whose maintenance and proper guardianship on the part of the Reichsbank we are assembled here. If this policy, which is urged upon us from the standpoint of the agricultural interests pure and simple, should be approved in Germany and put into practice, then we might as well at once abandon our international trade altogether. This is the object that is actually aimed at.

[Protest from Freiherr von Wangenheim.]

Yes; and what would happen if we had no longer any foreign commerce? Then we could sell our ships and abolish our embassies and consulates in the countries across the seas, and we should have to revert to the primitive condition of an agricultural state, to the condition of a country like Servia. This complete isolation from the world would be disastrous, not only to our agriculture but to the German people. Of course the anticipated low rate of interest would not be realized; on the contrary, if we shut ourselves off from the outside world and mean to rely entirely on our own resources and to make our living out of agriculture alone, then we shall witness in Germany a rate of interest as high as that which at present obtains in such agricultural countries as Servia. The result of such a policy of isolation would be that our German people would have to starve.

I say "our German people," because I protest stoutly that we are just as much the representatives of the Ger-

man people and have its welfare just as much at heart as the agriculturists. ["Quite true!"] It is being dinned into our ears that only the gentlemen who are advocating this agrarian policy in such an ultra fashion are the representatives of the German people. I must protest emphatically against this.

Another thing that I have to protest against as a bank manager is this holding up of the Preussenkasse as a model to us. The gentlemen who are especially interested in this fund are in the habit of asserting on every occasion that it has rendered great services to them. I am happy to hear this. But the Preussenkasse is not at all a private banking institution, but an institution subsidized by the State, which there is no sense in holding up to us as a model. Another charge that was brought was the spasmodic manner in which credit has been granted. Where is the granting of credit done more spasmodically than in the case of the Preussenkasse? Every couple of years it was found necessary to increase the capital fund paid in by the Prussian Government in the way of a subvention, in order to meet the ever-increasing demand for credit. I deny emphatically that the granting of credit by the Preussenkasse is based upon a better and more solid foundation than is the case with our great banks. Of course, opinions may differ. My humble opinion is that the solidity which is attributed to the Preussenkasse and which is supposed to rest altogether upon the joint responsibility of the cooperative institutions is not such a sure thing as it seems, because naturally the element of personal credit is more largely involved in the cooperative institutions

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than in the case of our credit operations. That the Preussenkasse may have been of great service to the agricultural interest I do not mean to dispute. But we insist, and shall continue to insist, on our position that the first requisite of a bank of credit conducted in the interest of the public is that it shall stand on its own feet and not have to be subsidized by the Government. For if the principle of government subsidies were universally introduced into business, we should have a socialistic state. We should moreover soon have a state in which there would be nothing left to subsidize.

To have a lecture read to us such as is contained in this memorial is a very wholesome thing. It is very good to be compelled once in a while to listen to something of the kind. I should just like to say, however, that the State, as such, unfortunately does not as yet derive its revenues from agriculture—I am an agriculturist myself—but on the contrary would relapse into an insignificant nullity if it had to-day to rely upon the revenues which agriculture affords. The national revenues, the taxes, etc., that are raised at present, are derived in the main, as everyone knows, from manufactures and commerce. This fact ought to receive greater recognition in all our discussions. But we are not thinking, as I said before, of a national subsidy.

It is clear to my mind that everything that Freiherr von Wangenheim has propounded to us is in reality a negation of all that we have discussed and advocated in this assembly. If it were actually a fact that agriculture alone looked after the interests of the German people, the thing

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would have such a depressing effect upon us that we could all do no better than to quit work and retire to the country, or, if that were impracticable, to emigrate.

Another assertion that was made was to the effect that a high rate of discount is just what the banks desire. I have stated here on every occasion that the banks are not a particle interested in having a high rate of interest. If the words used have reference to the Reichsbank, then I say that I can not for a moment believe that the Reichsbank puts up its rate of discount in order to increase its receipts. It does it for entirely different reasons, and if it happens thereby to make a profit there is no reason whatever why it should be reproached for it.

As I do not believe that on account of this negation of everything that has entered into our discussions we are bound to resign ourselves to letting agriculture have the upper hand everywhere, I should like to express in a few words what I had intended to say in connection with the matters discussed yesterday. It relates primarily to the proposition of Herr Fischel. I hope and believe that the Reichsbank will be induced to assent to Herr Fischel's proposition that the seigniorage be dropped and the purchase price of gold thereby raised by 6 marks per kilogram. I think it important that the precise manner in which this is done be carefully considered. It seems to me that it would not do simply to declare that the price is hereby raised by 6 marks, but that it would be better to say "the Reichsbank has decided that in future the seigniorage shall not be deducted from the actual value which it gives in 20-mark pieces for the gold that is

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brought to it." This would serve to prevent a false impression from being formed abroad, where proceedings of this kind are not always judged in their proper light, and might have great influence upon the policy of the Bank of England.

I wish to say just a few words regarding the question of supplying our manufacturing industries with the gold which they require. The subject managed unfortunately to slip out of my address yesterday. We were, all of us, greatly moved, of course, when the gentlemen from Pforzheim told us how nicely they could make use of the 20-mark pieces which the Reichsbank furnished them. But I think I can remember that it was shown to us by the refining establishments that that industry has not by any means been getting its entire supply of gold out of the Reichsbank's 20-mark pieces, but that at the present time it obtains a large part from the refining establishments. We hope it will continue to do this in the future, for the Reichsbank is certainly not going to make it its business to see to it that its brand new 20-mark pieces are despatched, as they have been heretofore, to Pforzheim. Herr Meier, of Pforzheim, assured us that they could not make use of the 20-mark pieces that had been in circulation, as they had lost too much in weight, and that it paid them better to buy their gold in the open market. I do not consider the danger that industry in future will seize upon the coined gold too eagerly a very formidable one. If we cease to encourage such appropriation of our coined gold by our readiness to supply new 20-mark pieces, industry will find it more to its purpose to buy the

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gold in the form of the very alloy which it needs from the refining establishments, paying for it a price 2 marks in excess of what is now paid these establishments by the Reichsbank.

I can not help protesting against the notion, which is nothing but a fiction, that it is incumbent upon the Reichsbank to monopolize in a measure the gold in Germany in future, and that it is to be the only place whence gold is to be distributed. We know that the refining establishments continue to draw gold in considerable quantities from every conceivable source in order to place it at the disposal of the industrial arts. This is as it should be. It can not be the duty of the Reichsbank to supply industry at special rates with gold ingots of a particular composition. I should regard it as very unfortunate in the interest of free trade, of which I am still a champion, if the new regulations should ultimately result in making the Reichsbank the only place where gold can be sold or procured. I do not believe that Herr Fischel's proposition contemplates anything of the sort. The idea is that, if we establish a market here, there should be as many purchasers as possible so that the gold business shall by no means be concentrated in the Reichsbank.

I do not believe that the demands of industry would greatly affect the condition of the Reichsbank. I do not think that industry will ask the Reichsbank to part with the gold which it has secured at a considerable sacrifice. This may take place indirectly in so far as the gold that goes to the refining establishments and thence to the manufactories might otherwise perhaps have found its way to the Reichsbank.

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I should further like to call the attention of the gentlemen who are troubled with indigestion on account of this gold industry that 80 per cent of the entire product of this industry is exported. Now, when we reflect that the articles manufactured in the Pforzheim establishments for the foreign market are not pure gold, but that as Herr Meier, of Pforzheim, has said, the watchword of this industry is "Put as little gold as possible into your wares" [laughter], then we see that the exportation of 80 per cent of these products means a plus in our balance of payments. It creates a larger item in the column of exports than the amount of the gold that it actually drains off from Germany. I should therefore like to caution you against laying too great stress on these demands of the gold industry with reference to the condition of the Reichsbank, demands which, in my opinion, ought in no way to be checked.

Mr. GONTARD. Freiherr von Wangenheim has just been talking of financial mobilization.

Financial mobilization, however, makes me think of mobilization in the ordinary sense, and I am willing to say that in the event of mobilization there is no one to whom, as my chief, I should be more ready to intrust myself than to our esteemed Rittmeister von Wangenheim.

Freiherr VON WAGENHEIM. I am no Rittmeister. [Laughter.]

Mr. GONTARD. But here, in this arena, where we are discussing economic matters, I regret that I can not intrust myself to his leadership. There are, indeed, a few

points in regard to which I am in accord with him. I am not very far removed from him, for instance, in regard to the regulation of the issue of stocks. Herr von Wangenheim will also be ready to admit that I, as is clearly evinced by my previous utterances, am not bound by any ties whatsoever to the great banks, and that I regard the power of the great banks, the moneyed aristocracy, as, to a certain degree, a very serious matter. But when we enter the domain which Herr von Wangenheim has seen fit to deal with in his discourse, we enter the domain of politics, one in which tactics play a great rôle. I believe, however, that tactics are not going to promote the progress of our discussions in this inquiry, and I am therefore of opinion that we can not afford to indulge in such entertaining argumentations. In one respect I stand on the same platform as Herr von Wangenheim. We are, both of us, anxious to achieve practical results. As a means of achieving practical results, I would recommend, first of all, a fusion of Freiherr von Gamp and those who share his views with their opponents, in the matter of the supervision by the Reichsbank of the issues of securities, and then the adoption of the proposition of Herr Fischel, as well as that of Herr Raab. In order that we may not lose too much time, I shall refrain from quoting from my printed opinion and shall confine myself to one or two remarks.

As regards private discount, I adhere to my opinion that it is on the whole of little benefit to the industrial and commercial middle class. All that we can say is that it may be of advantage at times when money is

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plentiful; at a time of great financial stringency we can not expect much from it. Now, I should like to come to an understanding with my esteemed countryman, and I believe we shall find a basis for such an understanding in the declaration that it is extremely difficult to determine where the industrial and commercial middle class actually begins.

I heartily recommend the suggestion of Herr Raab to the attention of those specially qualified to deal with these matters. A banker, Director Weill, has said in his expert opinion that it would be a good thing if the Reichsbank itself were to establish some sort of branches in foreign countries, if only for the sake of its foreign exchange business and gold-import operations. I do not think Herr Raab's proposition involves the danger that the sums paid in may suddenly be called for in a time of stringency. The money represents for the most part savings, and especially the savings of unmarried people, who have to look out for their future and who, even at a time when there is much speculation, are not likely to withdraw their money.

I will take the liberty of expressing myself briefly in regard to the foreign exchange policy, a matter which I consider of the utmost importance. Although in general I am anxious to have our capital remain at home, nevertheless I consider that it may be advantageous to the Reichsbank under certain circumstances to buy up foreign bills abroad. There is always in the end some sort of balance between what the Reichsbank does and what the great banks do, and perhaps, as an actual result, it

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would amount to the same thing whether the great banks buy abroad or the Reichsbank buys directly abroad.

I am surprised to find that so much stress is laid by some of the members of this assembly, and especially by persons whose opinions command great respect, upon the Hague Peace Conference. I agree in this matter with Director Ströll, and not even the contention of Geheimrat Riesser that there are also large credit balances in Germany to the account of England can alter my views. It is all a matter of the totals of the credit balances on the one side and on the other. We have, however, also to reckon with the character of the Englishman, who is extremely patriotic and who might serve as a model to us in such matters.

It seems to me that a large stock of foreign bills might be a good thing for the Reichsbank as a means of enabling it to invest its funds more readily, for the amount of domestic bills is not likely to increase so very much. Herr Roland-Lücke has already called attention to the fact that the numerous trusts that exist in this country have introduced such conditions in the matter of payments as to prevent the accumulation of a large mass of bills. This is precisely the case in my branch of business. Formerly there were three-months bills, but now it is either cash or bills at one month's or two months' sight. In Alsace, it is true, this is not the case, as was shown by one of the experts, but there is little prospect that the conditions prevailing there will spread further into the Empire.

I do not see how the Reichsbank could be called upon to keep the public posted in regard to its investments in

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foreign bills. The bank would thereby be more or less crippled in its operations.

The proposition that part of the stock of foreign bills should be regarded as an addition to the gold reserve does not appeal to me, although I do not say that the scheme is impracticable.

With respect to the advances without interest there is nothing more to say. The Reichsbank has had recourse to them till now with excellent results.

I am not in favor of including gold that is still in transit on the ocean in the reserve against bank-note circulation. Even if the insurance policy is in our hands, the gold is not yet in the possession of the Reichsbank.

I am decidedly in favor of Herr Fischel's proposition. As far as the main matter is concerned, I place full reliance on the ability of Herr Fischel and his friends.

I see no reason for imagining that the steamship companies will do much to help along the importation of gold. I do not believe the whole matter amounts to much.

There is one thing more that I desire to dwell upon at the risk of having to hear Herr Fischel say: "God protect me against my friends; I can protect myself against my foes." This is the question: Would it not be feasible for the Hamburg refinery and the other concerns of the same kind to join forces with the Reichsbank in order to establish a gold refinery which should be under the direction of the Reichsbank and independent of the great banks? It might at least be possible to agree to have the buying done at one place, although I am aware that the raw material which goes to the refineries is not all of uniform composition.

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As regards the premium policy, I wish to say one word with reference to the opinion delivered by Doctor Bendixen (Hamburg). He spoke of a superabundance of gold. A time may come perhaps, which we can hardly imagine to-day, when the price of gold will drop below anything that we can conceive of now. On the other side, I have been extremely interested in what Doctor Arendt had to say. It is a momentous question as to what will happen when gold is no longer to be had in sufficient quantities. As for the premium policy itself, we have all reached the conviction that it is out of the question in connection with the redemption of the 1,000-mark notes and the issue of 10-mark pieces, and that the premium policy is consistent only with the double standard, not in the scientific sense of the term, but as it is widely understood.

I am going to take the liberty in conclusion of appending a word to a simile which Herr Fischel made use of. He spoke of the ship of the standard. May I be allowed to add a helmsman to this ship of the standard? We do not intend by any means to make gold our absolute autocrat for all time to come. But we still continue to have the gold standard, and, if it is our desire to see our helmsman successfully direct the course of our exchanges, I should like to append another wish, that this commission may call out to him, with reference to the gold standard, "Stick to the course we have been sailing."

Mr. FISCHEL. I wish to revert briefly to a remark made by Herr Schinckel. He was discussing the question of the manner in which a declaration of the Reichsbank, to the

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effect that it would fix a higher price for gold, should be published. I do not think there will be any difficulty in settling upon the right form. I should not like to be misunderstood, however, in regard to my standpoint in this matter. If I spoke of the abolition of the seigniorage, it was merely in order briefly to set forth the grounds of my conviction that we ought to pay the full price for gold, a belief based on a consideration of what other countries are doing. It is not my idea by any means that we should enact a law abolishing the seigniorage. I can imagine that the passage of such a law would be attended with various difficulties—if for no other reason, on account of the fact of our having a mint not only in Prussia, but also in other countries, as, for example, Bavaria. The burden of the loss sustained by the mints if the seigniorage is to be discontinued might not be fairly distributed. The main thing is that the Reichsbank shall pay the price of 2,790 marks and that everyone can reckon on obtaining this price in Germany. I now have to say something about the financial side of these measures. It appears to me that if the Reichsbank were obliged to assume the expense involved in the renewal of our coinage, which is effected by coining a fixed quantity of gold annually, the burden would not be a very great one. I have already stated that at the rate at which we have been coining up to the present time the sum involved annually would be about 270,000 marks. I now have to qualify this statement in one respect. If we should succeed in prevailing upon our manufacturers to desist from melting down 80,000,000 marks in the gold coin of Germany every year, we should not have

to provide for the recoinage of this amount, and therefore the sum that would actually have to be coined in order to strengthen the volume of the gold circulation sufficiently would probably amount to less than what I have stated. I regard it, however, as a matter of no great importance whether it is the Reichsbank or the Imperial Government that assumes the expense. In any case three-fourths of the profits of the Reichsbank, as everyone knows, go to the imperial treasury. The burden consequently would not be great for the Reichsbank, and, as it is, the bank shoulders the same kind of burden in making advances without interest.

I shall take the liberty still of saying a word concerning the refining establishments, of which I had spoken in the course of the inquiry and to which my predecessor on the floor has just referred. I am by no means disposed to interpret the alliance which he proffers me in the sense in which he interprets it; it is quite welcome to me. If I have taken up the matter of refining, it has been for the following reason. I have frequently heard the contention, especially in England, that there is no use in sending the gold that is produced to any other place than London, as it is there only that it can be properly refined and placed quickly on the market. What is aimed at in my proposition is merely that the Reichsbank shall endeavor to meet such a contention by a declaration to this effect, that "we are willing to accept the gold not merely in the state in which it is fit for the mint, but also when it has still to undergo the preliminary process of refining." Whether, in order to do this, it will be necessary to estab-

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lish a refinery in connection with the Reichsbank is essentially a technical question, and the matter of expense will have to be taken into account. Hitherto establishments of this kind have been connected with chemical industries, and they can, perhaps, be conducted more economically than a refinery that is concerned with only a single branch of business. If the Reichsbank were in a position to make arrangements with the existing establishments, so that it could say that it was prepared to receive at once unrefined gold and pay for it immediately according to the approximate value, I should feel that my plan was being successfully carried out. As a necessary condition, the Reichsbank will have to ascertain beforehand the capacity of the existing refineries. I believe that a combination of this kind would be facilitated by the privilege enjoyed by the Reichsbank of the free transportation of gold through the mails. But it would be necessary for the refineries to accord such rates for refining as would meet British competition. I am under the impression, however, that the German establishments are already being run at a lower cost than the English, so that they can afford to make this concession, and even pledge themselves to reduce their charges still further if British competition should demand it. It would, of course, be of advantage if these concerns would also cater to the needs of the gold manufacturers. The Reichsbank ought to restrict itself as far as possible to its own special function, that of regulating the currency. If it could be partially relieved by the private establishments of the duty of supplying manufacturers with gold, that would be a further advantage.

Herr Gontard put this question: How would it be if we were to have a period of cheap gold? This could happen only in case of a fundamental change in the constitution of those countries which have hitherto been buying gold at its full value. As for Germany itself, it could get its gold more cheaply only in case of a fall in sterling exchange. Such a fall in the rate of exchange is the very thing, however, that I should seek to avert by means of the measures in question.

Freiherr VON WANGENHEIM. I greatly regret, gentlemen, that my expressions have aroused the indignation of some of the members. I stated at the outset that I should have been very glad to have spared your feelings and to have handed in my opinion in writing. Professor Wagner would have been ready to assent to that. But it would, after all, have been a little queer to drop an egg like that into the nest on the sly, and then go off without saying anything about it.

Herr Schinckel has altogether misunderstood me in regard to some matters. I have participated so many years in the political and economic life of our people and have learned so much in the course of our many conflicts, that I have long ago got over the illusion that Germany might at some time become again a purely agricultural state. That is entirely out of the question. I said, however, in my introduction, that I am anxious that the state shall extend its protection and aid to every branch of the national activity, but that this protection could be claimed only by those classes which are willing to make themselves and their interests conform to the interests of the public.

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The banking fraternity is included in this test. When we say that we must have liberty of movement, we do not mean to deny the necessity of making certain regulations in behalf of the public interest. It is the abuses only that I have been inveighing against.

I have been represented as having said that agriculture alone creates values. No, what I said was that, speaking strictly, it is agriculture alone that creates really new values. You will agree with me that industry must have raw materials which it has to work up. Through this manipulation a value is created in so far as the value of the commodity is enhanced. This I am perfectly willing to admit, and in this sense commerce also creates values. But really new values, such as have not been in existence before, are actually created through the labor of agriculture alone.

[Exclamations of protest.]

I did not ask for a duty on gold but only for protection against abuses which are hurting German industry.

Neither did I say that a high rate of discount was just what the banks wanted, but what I did say was that a statement had been made here to the effect that the bankers disliked nothing more than a high rate of discount, and I did add that this statement did not harmonize very well with the fact that banks declare high dividends in times of financial crises.

[“You had said something before that.”]

Neither did I recommend the Preussenkasse as a model. All I said was that it was interesting to observe that a section of the agricultural interest was not so badly affected

by the crisis, thanks to the activity of the Preussenkasse, which managed to have the necessary funds at hand when they were wanted. That it is altogether different in its structure from the other banks I am perfectly willing to admit.

In conclusion, I shall repeat once more what I said at the beginning. My economic standpoint is fundamentally different from that of most of you. Prof. Adolf Wagner has already stated that in some respects his views do not differ altogether from mine. In the discussions of the Bank Inquiry a number of practical suggestions were made with respect to individual technical questions, which, no doubt, will lead to some improvement in the situation. But all this can not bring about a permanent reform, and therefore I have considered it my duty not to withhold this expression of my views.

I have to tell Geheimrat Riesser that I can not at this instant reply to his rebuke. The quotations were given to me, but I am unable at this moment to verify the passages in the book.

Doctor WACHLER. I am sure you all experienced a sense of relief, gentlemen, when Herr von Gamp declared a little while ago that there was a prospect that this discussion would result in reconciling the conflicting opinions. After the address of Freiherr von Wangenheim, however, I must say that this prospect has almost faded away. For there is no doubt that such widely different views of the world prevail in this assembly that there is no possibility of reconciling them. Nevertheless I think that some of the arguments of Herr von Wangenheim ought not to go unchallenged.

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The notion that agriculture alone creates new values has been assailed as it deserves. I can not see why industry does not create new values in precisely the same way, at least the mining industry, which produces coal and mineral ores.

Freiherr VON WANGENHEIM. No, sir; that industry exhausts.

Doctor WACHLER. Yes; but does not the harvest exhaust the earth each year? I wish to remind you that in our economic policy throughout we have always laid the greatest stress upon the manufacture of finished products and that, in particular, in the discussion of tariff legislation a preeminent position has been assigned to the industries that convert raw materials into finished wares, because it was recognized that it is from them that the rewards of labor are chiefly drawn.

Freiherr VON WANGENHEIM. That was not intended to be anything else than a merely theoretical exposition.

Doctor WACHLER. That may be, but then one must be prepared to abide by the inferences. For, according to your view, we should be apt to infer that the manufacture of finished products meant less for the economic welfare of the people than the industry which creates fresh values.

It is a matter of regret that in support of this view various utterances have been adduced which were made in the course of the hearings of the experts, as, for instance, the assertion that there had been too rapid a development of manufacturing industry in certain exceptional cases, so that one was tempted to maintain the thesis that

this kind of industry had had an unhealthy development, to the detriment of other forms of economic activity. This is not the case, of course, nor is this what Herr Gwinner meant to affirm. All that he intended to say was that there were certain features in our economic domain that were not right. But these individual things that are wrong only go to prove that industry on the whole has been thoroughly sound.

The subject of the abuse of credit was thereupon discussed and, as an evidence of this abuse, reference was made to a statement of the president of the Reichsbank to the effect that some of the Bank's establishments had granted credit in certain cases where, according to the rules and principles of the Reichsbank, such action was not warranted. To this extent, then, the authority of the president of the Reichsbank can be invoked, that it is a fact that there have been abuses in the granting of credit. This is true, indeed, but then these things have been exceptional. It is altogether wrong, therefore, to make this the basis of an assertion that there has been, as a rule, an unjustifiable dispensing of credit. The credit has been practically throughout an entirely legitimate credit. But Freiherr von Wangenheim will probably reply to me that he merely wants to do away with the abuse of credit and that he does not mean to interfere at all with legitimate business. Now, it is very hard to say what is actually legitimate and what amounts to an abuse. We can gather from the statements of the experts that there is no such thing as an absolute criterion. But if such a criterion is impossible, any supervision in this matter that might be

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attempted could hardly have any value. It has been argued that, as long as we have supervision in the case of private insurance as well as of mortgage banks, there is no reason why our liquid credit should not be subjected to a similar supervision. It is very questionable, however, whether such supervision is of any value. All that I have heard in regard to private insurance companies is that supervision is a nuisance and has not proved of any benefit thus far. In the case of the mortgage banks little has been gained by such supervision, as was well attested by a particular case of flagrant mismanagement, where the bank conducted by Messrs. Schultz and Romeick ["quite true!"] was declared a court bank to Her Majesty, the Empress, and a month later became bankrupt.

Much is being said about the need of greater economy in the national administration and the desirability of retrenchment in the matter of public works, but on every side we hear nothing but a clamor for state supervision and the creation of new officials in order to supervise where there is no need of supervision. These are crass contradictions.

Something has been said about the Preussenkasse. The Preussenkasse has been enabled to grant credit on such favorable terms to the cooperative institutions only by withdrawing inordinate sums from the Reichsbank.

Another matter that Herr von Wangenheim particularly dwelt upon was the support given to manufactures and trade by the credit banks, and it is to this aid that he attributed the unhealthy expansion of industry. Now, I should like to call the attention of Herr von Wangenheim

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to one industry with which he is pretty familiar, the potash industry. This industry has hitherto not had the benefit of any aid from the great banks, but owes its development entirely to the efforts of mining companies and the operations of petty dealers in mining shares. I have in no way been able to discover, although I have made frequent inquiries, that the great banks have to any considerable extent a hand in the potash industry. This industry has had a phenomenal development in the last two decades. There is probably not far from 500,000,000 marks invested in the industry to-day. The value of the product amounted to about 97,000,000 marks in 1907; it was probably somewhat less in 1908. This quantity, amounting in value to 97,000,000 marks, could have been turned out by from eight to ten of the existing establishments, which together have to work with a capital of between 70,000,000 and 80,000,000 marks. The potash industry, therefore, has had this altogether unhealthy development in so short a time without any support from the great banks. Herr von Wangenheim can learn the lesson from this that it is not primarily the great banks that set industries going or urge them to heedless expansion, but that there are other classes in the community who are engaged in this sort of thing and for whose doings there is no remedy. It was evident years ago that the potash industry was tending toward overproduction. In spite of this new mining concerns were started almost every month and new ones are springing up all the time. The result will be that the only combine which has till now remained unassailed

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and which has commanded universal respect can no longer endure or perhaps will even collapse before the expiration of the term for which it was organized, which will be in 1909, to such an extent are new concerns thrusting their pretensions upon this potash combine. Here we have a plain example of the way in which an enormous and economically important industry which has had no connection with the great banks can, through rash expansion pave the way for its own destruction.

I am therefore of opinion—and everyone knows that I have no special interest in taking the great banks under my protection—that we should be careful about accepting the statements regarding the influence of the great banks upon the expansion of industry, and not throw blame upon an economic factor which is of the greatest value in connection with our whole development and which is undeserving of such blame.

Doctor RIESSER. I have to say to you, gentlemen, that Freiherr von Wangenheim has to leave to-day and can no longer be present to-morrow. I shall therefore ask to be allowed to say a few words more, so as to give Herr von Wangenheim a chance to reply if he desires.

I must first of all take the liberty, after Freiherr von Wangenheim has been good enough to declare that the passage in my book alleged by me to have been misquoted, which I have just placed before his eyes, is not at the place where it should stand according to his memorial, of affirming once more that the tenor of his assertion was that I had said that the banks “declared especially high dividends at times of crisis,” with the impli-

cation that they were interested in crises and their occurrence and were not sorry to see them brought on.

I am sure that we can not undertake at this moment to make a counter statement such as a memorial of this kind actually calls for. We have to deal here with divergent views of the world and absolutely opposed economic systems, as well as with altogether unlike premises, in regard to which we naturally can not come to an understanding—least of all, considering the occasion that brings us together. What we have a right to ask, however, whatever be the economic faith that one professes, and what we have a right, in particular, to demand of Professor Ruhland, is that he shall not leave out of consideration facts with respect to which the advocates of every economic system are agreed.

This applies, to begin with, to the insistence on the free importation of gold and the prohibition of gold exports, as it would be hard to find anybody who believes that there could be an importation of gold from abroad if the free exportation of gold was systematically forbidden.

This applies, likewise, to the remarkable proposition that the opportunity for labor ought not to be permitted to be interrupted by financial crises, as Professor Ruhland, who told us not long ago that he was convinced that his economic system would render such crises impossible, remained alone in his conviction, and will continue to remain alone. To speak of a perpetual absence of financial crises is like speaking of perpetual peace. Financial crises are bound to occur under every economic system, and, as was sufficiently attested by the experiences in

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England under the system of banks of deposit, they will take place under any banking system. Practical experience will perhaps enable us to get rid now and then of some particular defect in our economic system which, perhaps in conjunction with other circumstances, has been productive of financial crises; but then we are sure to fall into other errors capable of producing similar results.

As to Professor Ruhland's denunciation of the fact that nowadays "every banker in any cross-roads town allows checks to be drawn on him" against which there is no credit balance whatever—

Freiherr VON WANGENHEIM. No; it was Herr Rinkel.

Doctor RIESSER. I beg your pardon; it was Herr Rinkel. All I have to say is, that the assertion is simply false. No one dares, unless he be a swindler, to draw a check advertently on a banker without the certainty that he has a credit balance on the banker's books, or at least without the assumption, amounting to an assurance, that he will have the necessary credit balance before the check is presented for payment. Furthermore, the statement of Herr Rinkel that the new regulations prohibit the drawing of checks on anyone but a banker is false. On the contrary, anyone can draw a check on any legally qualified person, the only condition being that he must pay the stamp tax, which is not exacted in the case of checks on bankers, not because it was the intention of the law to favor bankers, but because it was found desirable to encourage the system of transfers of credit and counter accounts as a substitute for cash payments in connection with checks.

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One word more in conclusion. We all urge our individual propositions only in so far as we are convinced that we are going to serve the public good. The only difference, therefore, between us and the advocates of the views set forth in the memorial is that our beliefs and experiences have led us to different conclusions regarding what the public welfare demands from those which our opponents in the field of economics have reached.

Freiherr VON WANGENHEIM. Pitch into me as much as you please; that is all I have to say. All that Professor Ruhland did was to collect the materials for me, nothing else.

There is only one word I have to add. I did not quote in the way Geheimrat Riesser stated. I merely called attention to the fact that the banks are frequently able to declare specially large dividends in times of financial crises.

The CHAIRMAN. The last speaker on the list for to-day has had the floor. The names of a few members are put down for to-morrow. I adjourn the meeting for to-day and request you to be present to-morrow at 10 o'clock.

(Close of session 5.05 p. m.)

WEDNESDAY, *October 14, 1908—10 a. m.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN, president of the Reichsbank direktorium. I shall first allow Herr Schinckel to have the floor in order to make a personal remark.

Mr. SCHINCKEL. Contrary to my custom, gentlemen, I have written down the few words which I still wish to say, as I attach importance to their appearance in the report.

The reply to my rejoinder, with which Freiherr von Wangenheim had unfortunately to leave us yesterday, can not be left unanswered, as otherwise there would be a gap in our discussions.

The programme contained in the memorial which was read to us by Freiherr von Wangenheim was strongly tinged with the view that agriculture alone creates fresh values, that agriculture is therefore a factor in the economic life of Germany deserving of prime consideration, that on it preeminently the welfare of the German people depends, and that it is consequently necessary in the interest of the public welfare to protect it by means of legal regulations against the oppression and injury to which, it is alleged, it is subjected on account of the trusts and stock speculations with which industry and trade are permeated.

While we fully appreciate the importance of agriculture, which, as a matter of fact, is sufficiently protected by

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legislation and national subventions (witness the Preussenkasse), nevertheless we can not too strongly assail this conception of it, because the premises upon which Freiherr von Wangenheim bases his propositions, which so vitally affect our whole economic existence, are, as I shall proceed to demonstrate, false premises.

If we establish steamship lines, which perhaps may not touch Germany but which every year bring thousands of foreigners to Germany, and if the result is that a big stream of money is set flowing into the country, money which otherwise would never have come to Germany, then fresh values are thereby created. If we establish banks in foreign countries, which in the course of the year send millions to Germany in the way of surplus earnings, then fresh values are thereby created for Germany. But I am going to give you a much more apposite and altogether unimpugnable illustration afforded by industry, which, according to the view of Freiherr von Wangenheim, exercises merely a secondary activity, that is to say, is supposed to concern itself exclusively with giving a finish to commodities.

When a capitalist whose money is invested in industrial undertakings works his coal seams and veins of ore, adding perhaps foreign ores so as to obtain better results, and then charges his blast furnace in order to produce iron, he does precisely the same thing by utilizing the process of combustion as the agriculturist who takes a crop of hay from his meadows, adds some oil cake imported from abroad, and feeds the mixture to his cow in order to produce milk.

And when the same capitalist passes his pig iron through the Martin furnace in order to produce steel, he exercises precisely the same kind of activity as the agriculturist who passes his milk through the centrifugal separator in order to convert it into a superior article, butter. It is merely a matter of taste whether we designate these forms of activity by the catch phrase "creation of fresh values" or in any other way. The one kind is of no less importance than the other with respect to our whole economy. *Quod erat demonstrandum.*

But even with respect to the formation of trusts there is no difference between agriculture and manufacturing industry. Even the agriculturists have not scorned, for example, to organize an alcohol ring in order to make their profits as large as possible. And if, indeed, working for profit or money making is to be branded as plutocratism, I myself can bear witness as an agriculturist that agriculture goes to work, and is compelled to go to work, just as strenuously as trade and industry, with the most modern appliances (often introduced from abroad) to secure as large a surplus as possible in that decried and horrid money.

But if the premises of Freiherr von Wangenheim are false, his conclusions will not stand the test of criticism either, and therefore his propositions respecting the enactment of restrictive regulations extremely inimical to business are useless and not to be entertained.

Doctor WAGNER. Gentlemen, the expressions which we have just heard tempt me to take the liberty once more of saying a few words in regard to the matter before us,

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although I substantially defined my position in a personal remark which I made yesterday. I think, however, after a further consideration of the subject, that it may be worth while for me to make a few additional remarks.

I can not deny that I am in accord with some of the fundamental views set forth in the extensive memorial of Freiherr von Wangenheim yesterday, although not with his physiocratic theory, which Herr Schinckel has just assailed with perfect reason and which has been almost universally rejected by German theorists. We are willing to admit that the labor expended in industry and trade, as well as in the field of finance and banking, is essentially just as productive as that expended in agriculture without meaning thereby to ignore in the least the immense importance of agriculture and agricultural tenure as the foundation of our whole economic development. But I want to say—and I think this ought by all means to be inserted in our protocol, although I admit that I have to some extent a personal interest in the matter—that I consider that it is simply impossible and beyond the scope of the task assigned to us to deal with so extensive a programme, based upon theories which would seek to give a new direction to our economic development. [“Quite true!”]

Our duty, as I interpret it, is to deal with certain important, although not momentous, problems relating to the reform of our monetary credit and banking system, it being assumed, as was stated at the time in the introductory address of the imperial secretary, that we are to adhere essentially to the existing gold standard. My attitude as a theorist toward the gold standard is in some

respects somewhat skeptical. I have hinted at this here and there, but on the whole I have kept back my scruples. I believe that we are bound to take this condition for granted—I personally have tried as far as possible not to lose sight of this fact—and to consider it our business to remedy or remove certain defects that have manifested themselves in the financial system reared on this foundation, while preserving, I must repeat, the foundation itself. No other course is possible.

A part perhaps of what Freiherr von Wangenheim proposed further on could be introduced in some measure into our discussions in connection with Question VI, where we shall have to consider more closely the question of the status of the stock banks and, among other things, also that of the regulation of the deposit business. But in the discussion of these questions it seems to me that it is rather the technical features of the points involved that have to be considered, with reference to which we can then take up the discussion of the individual matters that are to enter into the framing of legislative bills and administrative regulations. But as regards the broad programme contained in the memorial of Freiherr von Wangenheim, we are obliged to refrain from entering into a discussion of it. I, for my part, am quite ready to do this in spite of the fact that, as I have already said, I agree with some of the views propounded by Freiherr von Wangenheim.

It is my belief, among other things—a belief which I can not disclaim here, as I have expressed it on every occasion—that we are in a serious stage in our development, owing to the fact that the distribution of our national

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income and wealth is progressively in favor of the upper, especially the uppermost, classes, on the one hand, and, on the other, in a marked degree in favor of the lower classes, especially that of the laboring people; while the large middle classes, who are designated as independent persons in the classification made for the purposes of taxation, barely maintain their position in the census lists as regards numbers, and as regards their share of the national income (a fact the truth of which is borne out by my investigations with respect to Prussia) are losing ground. But these are not the questions with which we here in this commission have to concern ourselves. If the Imperial Government or the Reichstag were to decide to-morrow that an inquiry be also instituted relative to the great fundamental problems which have been touched upon by Freiherr von Wangenheim, I should in some respects regard the proposition as something by no means to be rejected offhand. But then we should have a different task from the one that is ours now. Here we have to settle the questions before us on the basis of our actual economic existence and of our gold standard.

I considered it important that this should be inserted in the report of our proceedings.

Count KANITZ. I regret exceedingly that Freiherr von Wangenheim can not be present to-day. I hope that he will take his seat here again to-morrow and that he will be able to make a rejoinder to the exposé with which Herr Schinckel has just favored us. A large part of what is contained in Freiherr von Wangenheim's memorial, as the member who has just spoken pointed out, reflects the

ideas of the physiocratic system, which more than a hundred years ago, as Geheimrat Wagner will tell you, were in a measure the prevalent ones in the science of political economy. I shall not attempt, of course, at the present moment to present the bright and dark sides of this system. This would not be relevant to the task before us.

I must be allowed to say a word, however, gentlemen, with reference to a very different matter which Freiherr von Wangenheim has communicated to us. He expressed our thanks yesterday to the gentleman who digested and edited the opinions of the experts for the remarkably painstaking and able work which he has placed in our hands. To this expression of thanks I should like to append the wish that we may be permitted to lay the work before the public, as far as that is feasible, by means of the press, so that this extremely valuable compilation may at least be made accessible to the members of the Reichstag. It would give me great satisfaction if this assembly should adopt a resolution to the effect that this compilation be placed at least in the hands of all the members of that body.

Doctor RIESSER. But not the epitome merely. We consider it important that everything shall go into the report.

Count KANITZ. I regard this digest as more useful.

Mr. MOMMSEN. Let us take up this matter afterwards by itself.

Count KANITZ. I do not think that any member of the Reichstag will find it possible to wade through all the stenographic reports, but I am sure they will all be

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delighted to get the main points in these opinions in that terse, clear-cut form in which they are embodied in this compilation.

We find, gentlemen, right at the beginning of this compilation this sentence: "The main determining factor in regard to the international movement of gold is essentially the balance of payments." This is undoubtedly correct, and in order to form a clear conception of the character of the balance of payments, what is required, of course, is accurate statistics. This brings me back to what Herr von Gamp said yesterday. He was complaining of the untrustworthiness of the statistical data relative to the issue of securities and cited as an instance the fact that, according to the estimate of the *Frankfurter Zeitung*, the total of the securities floated in 1907 amounted to 1,842,000,000 marks, while *Der Deutsche Ökonomist* computed it at 2,135,000,000 marks, the difference amounting to about 300,000,000 marks. This discrepancy does not appear to me excessive, considering that, taking it all together, we have to rely on mere estimates. It would be especially difficult to compute the amount of German capital that is being invested in foreign securities. For we are concerned here, gentlemen, not merely with foreign securities that pass into the hands of German capitalists but also with the large sums of German money that are invested abroad in foreign securities through the intermediation of foreign banks and agents, and therefore naturally do not figure in the statistical data.

The regulations relating to the Bourse, which have unfortunately been radically modified, have been charged

with driving capital abroad, and in this connection I should like to say a few words in reply to what Herr Mommsen stated yesterday with reference to the operation of these revised regulations. As I have myself had a modest share in the making of these regulations, I believe I have a right to say that it will not do to denounce them in this easy manner. Of course this is not the time for engaging in a discussion concerning the Bourse. I wish merely to say that the law relative to the Bourse was deprived of its substance by the supplementary bill, so that virtually nothing was left but the title—the superscription—and the imperial commissioner is not invested with any powers. Consequently all that there is in the new law is that anyone can do or not do just as he pleases. But for this we have no need of a law. I, for my part, could not make up my mind to vote for this supplementary bill.

Another member of this commission made a suggestion yesterday which impresses me very favorably in various respects and might afford a means of obtaining some sort of statistical view of the gold movement. He proposed that all the gold coins in the vaults of the Reichsbank should be examined and the dates of coinage noted. A comparison of the relative amounts would enable us to calculate approximately how much gold has gone abroad in the course of a year and how much has remained at home. I believe you will agree with me, gentlemen, that it is quite possible to carry out such a scheme, but at the same time I can not help thinking that there are serious mechanical difficulties in the way. The coinage of

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double-crowns since 1871 amounts to 3,744,000,000 marks and that of crowns to 732,000,000 marks. The minting of imperial gold coins has been going on for thirty-seven years. Now, if such a sifting of the coins is to be undertaken, the teller must either have in front of him a box with 37 compartments or a sheet of paper divided into 37 columns, one for each year, spread out before him, or else he must have an assistant to whom he simply calls out that this coin belongs to such and such a year and that to another. Let us suppose that it takes on an average only two seconds to get through with a coin. This would mean 30 coins per minute, 1,800 per hour, 18,000 per day of ten working hours. This would amount in thirty days to 540,000 coins, amounting in value to 10,800,000 marks. To go through the 820,000,000 in the Reichsbank in this way would require the labor of 80 employees for thirty days. [Laughter.]

Well, even if our esteemed president, Herr Havenstein, if Herr Glasenapp, Herr von Lumm, and all the members were to take a hand at this job [laughter], and let their professional calls shift for themselves, I think it would hardly be worth our while to go to all this labor, time, and trouble. I am of opinion, therefore, that this otherwise rather inspiring proposition is, after all, not practicable.

Geheimrat Wagner brought forward another question, which I myself once broached in the Reichstag, as to whether it would not be a good thing if the Reichsbank were to insert in its weekly reports a separate statement

of the amount of gold and silver coins in its vaults. I hardly think that there would be any special difficulty in the way. I was told years ago that the Reichsbank was in the habit of confidentially imparting this information in very precise figures to the other great banks. This fact was communicated to me by a resident of Vienna. Yesterday I learned from Herr von Glasenapp that once through some accident such information was actually carried to Vienna, but that the managers of the Reichsbank continue to preserve absolute secrecy in regard to the amount of gold and silver in the bank. I should state, on the other hand, that in the statistical reports concerning the Reichsbank, that is to say, in the "Statistical Yearbook," separate statements may be found regarding the stock of gold and silver, no weekly figures, however, being given, but only the average for the year. For instance, I find here on page 233—

A VOICE. In the annual report of the Reichsbank!

COUNT KANITZ. All that is stated, however, has reference to the average for the year, and I should consider it a great gain if such separate statements could be had in the weekly reports. I should be very grateful to our president if he could possibly give me an affirmative declaration in respect to this matter.

Gentlemen, one of the most important factors in our balance of payments is, of course, the balance of trade. If we are here in consultation to suggest remedies for the unhealthy movements of gold which we have witnessed in the last few years, we can not help casting a glance at our balance of trade. I regret that we are not likely to be

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in a position for a long time to come to alter materially the undoubtedly unfavorable state of our balance of trade, inasmuch as our relations with foreign countries are settled for years ahead by our commercial treaties. I regret that these agreements have been concluded on the basis of such low customs tariffs. I regret that the very comprehensive work undertaken by the Economic Committee—Oberbergrat Wachler, who was a member of this committee, will perhaps confirm what I am saying—was simply turned over to the imperial ministry. We had drawn up a new tariff, providing for very different duties and considerably higher ones than those afterwards embodied in the schedule submitted to us by the imperial ministry, and I am pretty sure that our balance of trade would make a much better showing if our propositions had not been rejected. It is unfortunate that the Imperial Chancellor, Prince Bülow, was obliged to give up so much of his time to other business that he has been able to devote so little attention to matters of commercial policy. The fact remains, and we can not change it, that our balance of trade is an adverse one.

Herr Mommsen remarked yesterday that the profits of trade were set down too low in our statistical tables. I am willing to admit the assertion with respect to some articles, but not with respect to others. Quite the contrary may be the case. When we see, for example, that our trusts, especially the iron trusts, sell their products abroad at a lower price, indeed a much lower price, than they do at home, but that the full domestic price is given in the statistical tables, it is evident that excessive

figures are assigned to these articles in the exports, and that therefore the figures of the balance of trade are misleading, making it appear less unfavorable than it really is. Permit me to demonstrate this by a single example.

About three years ago a new gasometer was set up in Copenhagen. Bids were invited by advertisements inserted in all kinds of domestic and foreign journals. German and English firms appeared as bidders. An English firm finally got the contract as the lowest bidder. The curious feature of the affair was that the gasometer was constructed of German material, sold by a trust to the English firm at a reduced price, which material was shipped direct to Copenhagen from the works in Westphalia, a profit being still left to the English contractors.

You see, therefore, that the trade statistics, in the way they are prepared, have some dark sides to them, and this not only in the sense in which Herr Mommsen expressed himself yesterday, but contrariwise also. Sometimes the profits of trade are reckoned too low, while the figures given for exports are too high. The showing, therefore, in the trade statistics may be too favorable a one and not justified by the actual facts of commerce.

Our statistics show that our imports in 1907 amounted to 8,747,000,000 marks and our exports to 6,850,000,000 marks. This means an adverse balance of 1,897,000,000 marks, without reckoning the precious metals. Comparing this with the facts presented by the United States, I find that the exports from that country in 1907 amounted to 7,899,000,000 marks, while the total of the imports was only 6,024,000,000 marks, the balance of trade being in

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favor of the United States, therefore, to the extent of 1,875,000,000 marks. The balance of trade was still more favorable in 1906, the figures for the exports and imports having been respectively 7,324,000,000 marks and 5,151,000,000 marks, the balance in favor of the United States being therefore 2,173,000,000 marks. Now, if the balance of trade is the dominant factor in the movement of gold, then the United States ought to have escaped the gold famine, ought actually to have been swimming in gold, by reason of this extraordinarily favorable balance of trade. But in reality it turned out just the other way. The gold famine was most severe in America; it was in America that the gold famine began last year, spreading thence over the European countries. Other factors must therefore have been involved in the matter.

I shall designate one of these factors, if you will allow me, one to which brief reference has just been made, the activity of the trusts and combines, not always justifiable, in my opinion, from the economic standpoint. Last year I brought forward an interpellation in the Reichstag relative to the bank discount. Before making it I discussed the matter with the president of the Reichsbank, Herr Koch, and we were agreed that the gold famine, in the way in which it originated in America and spread over Europe, was to be attributed in the main to the proceedings of President Roosevelt against the trusts and combines in the United States. The result was—I do not mean to say exactly a shock to American trade and industry—but a certain lack of confidence in their future development. Everybody believed that a great panic was impending, and

in this panicky situation everybody kept his money tight in his pocket. Gold disappeared from the surface and had to be brought over by force from Europe. Such were the main features of the gold famine. The American people, of course, sought various means of relieving this gold famine, and the Secretary of the Treasury threw a great quantity of Panama bonds upon the market in order to haul the gold out of the pockets of its owners, as he expressed it.

You will therefore perceive, gentlemen, that various factors enter into this matter in addition to the balance of trade and the balance of payments. The balance of trade is naturally, as I have already said, one of the main factors in the balance of payments. We might, with some degree of safety, take into account alongside of it the profits of maritime transportation; that is to say, the total gains of our shipping companies. We are not likely, it is true, to get a correct idea of the actual figures. The dividends of the North German Lloyd, for example, have been in recent years: In 1902, nothing; in 1903, 6 per cent; in 1904, only 2 per cent; in 1905, 7½ per cent; in 1906, 8½ per cent; and in the past year, 1907, much less, in fact, zero, as far as I am informed [exclamation of "It did declare one"]; in any case, a merely nominal dividend, very much smaller than in the preceding year. By reason of these spasmodic fluctuations in the dividends, it hardly seems to me that the profits of the shipping business, although they have to be taken into account, particularly in the case of the British balance of payments, play altogether a very important rôle.

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And now, gentlemen, I come to the question: In what way can we perform the task intrusted to us; what can we suggest in the way of a remedy to hinder the flow of gold abroad; and how do we propose to compel the gold that is now in the country to remain where it is? I think that in this matter it would do no harm just to cast a glance at the Bank of France. Geheimrat Wagner called our attention yesterday to the wonderful way in which various foreign banks have developed, as well as to the way in which they have managed to increase their stock of gold, while that of the Reichsbank has remained stationary. I want to lay stress upon the fact that this gold famine which we have had, especially in the past year, did not affect France in the least, the Bank of France having managed to get along with a discount rate of 4 per cent, while we have had to endure a rate of $7\frac{1}{2}$ and even $8\frac{1}{2}$ per cent. I refer you to an article, which attracted considerable attention, published by the former president of the Reichsbank, Herr Koch, about two years ago, in the *Deutsche Revue*. "We are apt to have a false impression," he says, "with respect to the manner in which the Bank of France disposes of the matter of gold payments. It redeems its notes, as a rule, unless the amount is small, in silver; and in the granting of credit, barring exceptional cases, it likewise pays out nothing but silver. When it pays out gold, which it hands out in the form of bars or of foreign coins, it makes a small charge, which in French parlance is designated as a premium. Such a procedure would be utterly out of the question in Germany. If the Reichsbank, renouncing the principles which have hith-

erto guided its conduct, were to refuse to pay gold when its notes were presented or when it had to meet other liabilities, as, for instance, in the case of the withdrawal of deposits, its little stock of silver talers would soon be exhausted. We should inevitably witness a general state of anxiety, our credit abroad would be affected, the notes of the Reichsbank would lose their present character, and the monetary standard of the Empire would be endangered. A great part of the deposits would soon be withdrawn from the Reichsbank if the depositors became apprehensive that they would no longer receive gold, but silver and paper."

Permit me, gentlemen, to say a few words with reference to this utterance of President Koch. It has been the rule of the Bank of France to pay out gold to those depositors whose deposits have been made in gold. If the Reichsbank were to adopt this principle, it goes without saying that those who have deposited gold would receive gold. I believe on the whole that, although we have no right to tamper with our monetary standard, we should do well to follow in a considerable measure the example of the Bank of France, and that we should find therein an effective remedy against the recurrence of such crises. The Bank of France redeems its notes in silver. What prevents us from doing the same? The answer of President Koch to this question was that the effect would be to endanger our monetary standard and undermine our national credit. But tell me, gentlemen, has the national credit in France been in any way undermined? Is not France about the wealthiest country at

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the present time? Does not the national credit in France possess a stability the lack of which we sorely feel? The 3 per cent French rentes are at par or almost at par (99 and a fraction), while our government obligations are somewhere around 83. How can anyone say, then, that our national credit would be shaken if the regulations relating to our metallic currency were, without sacrificing our gold standard, to be modified in such a way that our banking institutions could pay sums above 20 marks (the limit fixed by the law of 1873) in silver or in bank notes?

When on the 14th of January last I declared in the Reichstag with reference to this matter that the Reichsbank was bound by Article IX of the currency laws of 1873, Herr Kaempf exclaimed "Thank God!" Well, gentlemen, I am not one of those who keep saying "Thank God!" for it is this very requirement that has brought us into our trouble. I see no reason why the paragraph in question can not be revised; why we should not insert, in place of 20 marks, a much bigger sum, say 1,000 marks. Why not make the amount of silver per capita larger than what is provided for by the supplementary regulations relating to the currency? The amount per capita, as you are aware, was raised from 15 to 20 marks. I should consider a further increase very desirable. I have taken the liberty on a former occasion of expounding the view which I am now laying before you, and I think I am justified in asserting that what I have witnessed in the interval is not calculated to alter my opinion.

This is about all I have to say, gentlemen. I have nothing better to propose than what I have suggested. Let us not be forever thinking of the balance of payments and constantly pointing to this or that circumstance as responsible for the gold famine, while insisting at the same time that it is beyond our power to alter these conditions and that the discount screws remain as before the only means of protecting in some measure the stock of gold in the vaults of the Reichsbank. What terrible mischief the high rate of discount has wrought throughout the country, we all know. Every business man, every artisan, every agriculturist, every owner of an industrial establishment feels it all over. I trust we may never have to witness a recurrence of such times as these have been. Let us go to work, gentlemen, and do something positive. No good can come out of these halfway measures.

The CHAIRMAN. I beg to be allowed to say a word with reference to a question raised by Count Kanitz. He suggested that the Reichsbank should in future publish separately in its weekly report the amount of gold and silver in its vaults. I am able, first of all, to confirm the statement made to him by Herr von Glasenapp that hitherto no information has been given out regarding the stock of gold on hand each week, and that if such information did once get abroad in Vienna it must have happened through some accident. All that has appeared in the report of the managers is the amount of gold and of silver at the close of the year, as well as the average amount throughout the year, and, in addition, there is a scientific work which gives statistical tables exhibiting the average amount of the various kinds of money for each year.

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I will say, gentlemen, that the Reichsbank has received a large number of petitions relative to the extension of the scope of the weekly bulletins. I had occasion some time ago to bring the suggestion of Count Kanitz to the notice of the directors, and I can assure you that of all the requests that were communicated to us this one appeals to us most strongly, and that the objections which formerly stood in the way of the publication of such separate statements appear to us so far removed that we hardly need to hesitate any longer to keep the public informed of the stocks of gold and silver in our possession. I can not, however, hold out this prospect of a favorable issue in the case of various other petitions that have been presented to us, and in particular such as request us to make public the total of foreign bills and of credit balances. It is in great part this very uncertainty regarding the amounts in question that enables the Reichsbank to put forth its strength in connection with its stock of foreign bills. ["Quite true!"]

I hope, therefore, that, beginning with next year, we shall be able to comply with the wishes of Count Kanitz.

Freiherr VON CETTO-REICHERTSHAUSEN. I should really have preferred, gentlemen, to take the floor later on—that is to say, when we should have come to Question VI, in connection with which I should have had occasion to express my views in detail regarding a number of the points that have thus far come up for discussion. But in as much as Freiherr von Wangenheim set forth his programme yesterday in an address which might produce the impression that he, as the chief representative of German

agriculture, had presented the agriculturist platform as far as concerned the whole purpose of this inquiry, I feel prompted right now to explain my attitude with respect to this programme of Freiherr von Wangenheim.

There is no doubt, gentlemen, that German agriculture for a time received less attention than it deserved in the industrial activity of our country and in the economic policy of the Government. It took some time before we fully recognized the prominent position to which agriculture, as an economic factor, is entitled. That it should have happened thus, I, for my part, do not find it difficult to understand. It was due to the rapid and splendid development of manufacturing industry and to the fact that the achievements of industry and commerce present themselves more readily to the view of the upper classes, and, generally speaking, of people of education, than the results achieved by agriculture. But the wrong involved in this lack of appreciation of agriculture has, we are happy to admit, been made good in the course of years. From the moment when, in 1879, our former imperial chancellor, Prince Bismarck, adopted the policy of affording protection to the labor of the people, German agriculture began to receive its dues, while, on the other hand, the agriculturists themselves found it to their advantage to abate their immoderate demands, and, with a keen insight into the workings of such a policy in regard to their own interests, adapted their attitude toward manufacturing industry and trade to the actual conditions. I believe I can say that neither do sincere friends of agriculture and the agriculturists themselves nowadays pretend, on the one hand, that agriculture has an exclusive claim to being

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regarded as a productive agent, nor do they insist, on the other hand, that industry and trade are trying to assert such a monopoly. I believe—and I have been confirmed in my opinion by the discussions relative to the tariff and the commercial treaties—that, fortunately for our entire economic condition and our means of existence, a middle course has been found, to which the far-seeing representatives of agriculture and of trade and industry alike have successfully betaken themselves.

The position taken by Freiherr von Wangenheim in his address yesterday is, as we can gather from our previous discussions, identical with that of Professor Ruhland. I must confess that when I read the statements of Professor Ruhland, in which he refers to me as a collaborator, I was rather taken aback. I did at one time, it is true, work together with Doctor Ruhland in a particular branch of political economy, that which is concerned with the credit system, and in this field I have in many respects shared the views of Doctor Ruhland; but I must solemnly protest against the assumption that the views which Doctor Ruhland sets forth in his latest work on economics, in some respects a most interesting book, are all such as I have adopted after many years' experience. President Schinckel, if I remember right, referred to a declaration of Freiherr von Wangenheim to the effect that agriculture ought to be regarded as possessing a certain monopoly; that it alone creates values, and that it alone can claim to be considered a productive industry. It was impossible for me to follow the statements of Herr von Wangenheim closely. They were read, besides, rather indistinctly,

and they were so drawn out that I was not able to get the whole thread and substance into my brain; but I believe I can safely say that these utterances did not embody the notion that agriculture alone is a productive industry, everything that the nation produced being derived from it. It is correct to say, of course, that agriculture is the source whence a large number of values are derived, and that it is the foster mother of the whole people in so far as it actually provides our raw materials on a vast scale in the form of primary products and especially our food supplies. We ought not, however, by any means to forget that manufacturing industry is also a great productive agent, converting raw materials into finished products; that it is not agriculture alone that supplies the raw products of nature, in part already in a form fit for immediate use, if I may so express it, but that such production involves processes in entirely different spheres of industrial activity. The range of this kind of productive activity transcends our imagination. I need only remind you of the latest discoveries which have been made in the industrial field for the benefit of agriculture. If we can obtain nitrogen from the atmosphere by means of electricity, we must admit that this is a new form of primary production, something that no one ever thought of before. [An interruption.] If not primary production, at least a transmutation of previously existing elements into a superior substance. Well, all we can say is that both sides are claiming decidedly too much.

But there appears to be something besides that has been overlooked by many, the fact—and this is the question that

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concerns us at the present moment—that the claims of agriculture in the matter of the currency and of credit are of an essentially different character, and should be of a different character from the claims of trade and industry—essentially different for the reason that the nature and methods of agricultural production are essentially different from those of manufacture as well as of trade, which I should by no means designate as an unproductive industry. The efforts which German agriculture has been making in recent years in order to have the currency and the credit system adapted to its peculiar needs are fully justified. We must be careful to discriminate between the requirements of agriculture in the matter of the currency and of credit from the needs of manufacturing industry and of trade. [“Quite true!”]

If we proceed from this standpoint, gentlemen, I believe that, on the one hand, you will have due regard for the legitimate demands of agriculture, and that, on the other, we shall reach a compromise which will enable us to carry on our discussions from the standpoint of the needs of our economic fabric taken as a whole. This is the position which in my opinion is taken by a large number of our agriculturists, with whom I fully agree. As a delegate to this assembly of the Council of German Agriculturalists, I should like to modify the impression produced by the exposition of Herr von Wangenheim yesterday, whose standpoint, in my opinion, was rather one-sided, and to declare that although my views are in many respects fundamentally in accord with those of Herr Wangenheim, I am not able to go so far in my deductions as he did yesterday.

On the other hand, gentlemen, I can not help protesting against the violent remonstrances that have been heard on the other side. It appears to me, in particular, that the interpretation which our honored colleague, President Schinckel, has placed upon the utterances of Herr von Wangenheim is not warranted. I think that it does injustice to Herr von Wangenheim.

And now, gentlemen, I have sufficiently explained my position to you. I believe that it was due to myself and to you that I should try to throw some light upon this whole matter by means of such an exposition as I have made (which in reality would have been more fitting in the general discussion), which will give you a clear idea of the standpoint of a large section of the agriculturists, which standpoint, I believe, will and can constitute the basis on which the representatives of agriculture and those of trade and industry will be able to prosecute their labors in unison.

Mr. FISCHER. After the excellent and exhaustive statements which the majority of the members of this commission have made in the course of more than two days, it is hardly proper for me to repeat what has already been heard, and in part said more than once. I agree in the main with the views held by the great majority of the members and in particular with those expressed by Director Peter, except as regards one point. He seemed to consider it almost a matter of course that a considerable share of the sum invested in foreign gold bills should be reckoned as constituting part of the stock of gold in the Reichsbank. I should be sorry if that were so or if it were regarded as necessary, for I fear that a large section of our people

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would look upon it as a concession to the outside world. To some it would appear as an official declaration, as a recognition of the fact that in reality the foreign, that is to say, the English monetary standard is better and purer than the German. I believe that this is neither right nor necessary.

I need hardly say that I appreciate as fully as the rest of you the value of Herr Fischel's suggestions with respect to the eventual establishment of a gold market in Berlin. Nothing will please me more than to see this brought about, and especially if it were found practicable to put these suggestions to a practical test without recourse to the machinery of the law—without any legislation, I say, because I believe that any changes which experience might dictate could more readily be introduced if there was no need of resorting to new legislation. To a layman like myself the idea would naturally occur that it would be advantageous to have the refinery which Herr Fischel has in mind associated, partially at least, with the Berlin mint. In this connection I beg to be permitted to express the hope that that gold-devouring Moloch, the industry which turns out gold articles and which is so actively carried on in my vicinity in the towns of Pforzheim and Gmund, will find the Reichsbank ready to do all that is possible in the way of satisfying its special needs. I am naturally opposed to any police regulation prohibiting the melting down of imperial coins, as I can not imagine that it would work satisfactorily, and I believe moreover that such a legal regulation would be altogether superfluous if the Reichsbank were to adopt the policy of supplying this industry directly

or indirectly with the necessary ingots, plates, and bars of the required composition, so that there would be no need of melting down German coins. I feel that this industry is all the more deserving of assistance of the kind in question because there is no other industry in Germany so large a percentage of whose income goes to improving our balance of trade, as the great bulk of its large output is exported.

As regards the last subject, the premium policy, it is not worth while in my opinion to waste words upon it, as long as it is our purpose to adhere to the gold standard, pure and simple. I regard it as a very gratifying result of this bank inquiry that up to this very moment no direct assault has been made upon our gold standard. Even Doctor Arendt would not mind seeing a strong silver wall built for the maintenance of the gold standard.

Mr. SINGER. It is very kind, gentlemen, on the part of our president to offer me the floor. You will find it natural, however, in view of the circumstance that, out of consideration for my health, I have been unable to participate in the labors of this commission in the way I should have wished, if I confine myself to a few brief utterances. I should consider it presumptuous on my part to undertake a detailed exposition of matters to which I have been prevented from giving the attention which has been bestowed upon them by the other members of the commission. I must also frankly confess that the state of my health has prevented me from going over the reports of the discussions so thoroughly as to be sufficiently informed regarding each point to justify my speaking

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at length. I shall therefore only beg to be permitted to make a few brief remarks, mainly with reference to what Herr von Wangenheim said yesterday and what was said to-day by Count Kanitz.

The relations between the agricultural interest and the Reichsbank have for a number of years been rather strained. I can look back over a period of twenty-five years that I have been a member of the Reichstag, and I know perfectly well that the complaint of the agricultural interest regarding the Reichsbank and its conduct has meant just this, that the agriculturists have always insisted that the Reichsbank has not shown itself sufficiently attentive to their needs, while it has been altogether too intent on catering to those of trade and industry. I must say that throughout all these years I have regarded the attitude of the Reichsbank in this respect as, on the whole, fully justified by the circumstances. To my mind it is very evident, although I am not sure that the members will agree with me, that the Reichsbank, in the discharge of its functions as a regulator of the currency, has the duty of looking after the interests of trade and industry, and that the peculiar interests of agriculture, apart from those served by institutions provided for the public as a whole, can not possibly receive that special attention on the part of an institution such as the Reichsbank is, and is bound to remain, which those engaged in agriculture would like to receive.

The preference for the double standard evinced in the utterances of the two members I have referred to and in those of some of the other speakers, as Herr Wagner and

Herr Raab—the regret expressed, even if reluctantly, that the gold standard is to be maintained under all circumstances—this it is, gentlemen, that explains to me why the agriculturists are constantly insisting that the Reichsbank is neglecting their interests.

But there can be no doubt that, considering the fact that Germany has been converted from an agricultural into an industrial country, and that this transformation is going on at an accelerated rate, it must be regarded and prescribed as the chief duty of the Imperial Government and of its credit and monetary institution, the Reichsbank, to look after the interests of trade and industry, however distasteful this may be to our landed gentry.

The demands set forth in the exposé of Freiherr von Wangenheim are not calculated in my judgment to serve here as a practicable basis for legislative measures.

If Count Kanitz believes, as he stated to-day, that the depressed state of industry, the crisis through which we are passing—in short, the whole situation in which we find ourselves at present—is the result of what he considers injuriously low rates in our tariff, then I must say that his is a view which is diametrically opposed to my own. I am, on the contrary, of opinion that our policy with respect to commercial treaties and the tariff, which is carried on under the auspices of the agricultural interest and is inordinately influenced by the requirements of the great landowners, is in great measure responsible for the industrial crisis, and I should like to add right here by way of a side remark that, judging from actual facts, I can by no means share the utopian view of those

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who fancy that we have got over the crisis, that we are afloat again, and that we have returned once more to normal conditions. ["Quite right!"]

I can not help fearing that the coming winter will bring us some bitter experience in this respect. If you will only consider how rapidly unemployment is increasing and to what an extent, by reason of the high prices of the necessaries of life from which we are now suffering, the lack of work and the resulting diminution of the opportunities for work, the depression of wages, etc., the purchasing power of the masses has been diminished, then you will see why I can not understand how anyone can imagine that all is well again, that we are getting back to where we were, and that we can afford to regard what took place in 1907 as an unpleasant recollection. The facts, gentlemen, are very different; the contrary is unfortunately the case.

As to the great question with which we are concerned, I have to say, gentlemen, that the suggestions which have thus far been offered in the way of a solution afford no means of averting a crisis. ["Quite true!"]

One of the members has expressed himself to the effect that, as a matter of course, the circulation of money and the business resulting from it pursue an undulatory course. This is true, but not in the sense that it must inevitably be so, inasmuch as these upward and downward fluctuations are merely the necessary consequences of the present constitution of society. The capitalistic system of production brings about from time to time economic crises, and the result of the unrestrained production is, that at

certain times, as, for example, when there is a glut in the market resulting from unsatisfactory domestic conditions, sales of merchandise are reduced, or, if at the same time political conditions abroad exert their influence, stoppages in production ensue, which, through their effect upon demand in general, have an injurious effect upon trade, industry, and agriculture.

I hardly believe, therefore, that as a member of this commission, in which the imperial secretary was kind enough to enroll me, I am called upon to enter into an analytical discussion regarding the regulation of production and the steadying of the markets with my esteemed colleagues, whose views of the world I do not share and whose political opinions are entirely at variance with my own. Such a disquisition would only weary you without doing me any good. I take it to be my business rather to consider on the basis of actual conditions whether the propositions presented in the question before us are calculated to avert, or at least to mitigate, the economic evils in the matter of bank discount and the outflow of gold from Germany which the year 1907 has brought to a head.

To begin with, gentlemen (this is perhaps a heretical view, but I think I am in duty bound to express it), I see no reason at all to complain, as others do, if the rate of discount—I am not speaking, of course, of an excessively high rate, which I likewise consider harmful—goes up a little. I do not regard this in itself as an evidence of unhealthy economic conditions. It seems to me, on the contrary—and my opinion is based on many years' experience in mercantile affairs—that a stiff rate of dis-

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count is actually always a sign of good business in the matter both of manufactures and of trade. An increasing demand for money is generally an indication that business is booming. I can not quite agree with Herr Roland-Lücke in his view that industry is in reality responsible for the hard times through its inordinate expansion and the establishment of great plants which are idle for want of business. This may be the case to some extent, but I think that we can not overlook the fact that the great banking institutions are also to blame in this matter. We are all aware that, owing to the great mobility and cheapness of capital and the active encouragement afforded by the great banking institutions, all kinds of undertakings have been set on foot; that the owners of industrial establishments, by reason of the high prices paid for their plants in the conversion of their concerns into stock companies, have been absolutely incited to enter into capitalistic combinations. But there is now no object—or at least none but a purely academic object—in tracing this phenomenon back to its causes. We must content ourselves with establishing that a certain commercial injury has resulted in part from the excessively high rate of discount that we had. It would be, however, to my mind, a great mistake to make the Reichsbank responsible for the high rate of discount. The Reichsbank is after all merely an economic factor, a regulator of monetary affairs, which has, I might almost say, the function of a barometer, through the measurements of which one can draw an approximately accurate picture of the state of economic conditions. If the Reichsbank

finds from the pressure it feels that it must raise the rate of discount in order to be able to meet the demands made upon it, that is a measure which must be regarded as a consequence of the duty of the Reichsbank, and one against which nothing can be said.

I believe that the unconditional maintenance of the gold standard is an absolute necessity, especially under the present circumstances. But if we mean to abide strictly by the gold standard, then it will certainly be desirable for us to bestir ourselves to have as much gold as possible in the possession of the Reichsbank, and thus in our own country, and to check as far as possible the outflow of gold into other countries.

Freiherr von Gamp can not but pardon me if I take exception to a remark of his as not being to the point. In criticising the large amounts of foreign flotations, he said that it was foolish to proceed in this way, because through the receipt of these foreign loans we become the debtors of foreign countries. Why, one might say just as truly that the contrary is the case. Through the receipt of foreign loans we become the creditors of foreign countries. I think that this pithy sentence of Freiherr von Gamp has no real foundation whatever. I do not wish to depend at all upon the fact that we improve our gold balance through the payments of interest that come into Germany on these investments; the very fact that foreign issues find here a willing market argues favorably for our balance of trade and favorably also for our balance of payments.

I should be led too far afield, especially as I was unable to attend the earlier discussions, if I were to express myself

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fully concerning the causes of the flooding of our market with foreign issues—causes which, to my mind, at least, might be avoided. Count Kanitz has mentioned that in his opinion the wrong and insufficient bourse law is partly to blame for our want of gold. In drawing our final conclusions we come together on the ground of the bourse law, though of course very different reasons have brought us there. But to join the question of the bourse law onto the question that lies before us seems to me a bad plan, for we have now to consider only, so far as I understand the question, what measures to propose that are calculated to lessen as far as possible the universally admitted deficiency of gold in the holdings of the Reichsbank.

The proposals of Director Fischel seem to me on the whole calculated, so far as that is possible within the bounds of capitalistic development, to prevent, or at least to diminish, this evil. As for the question of whether we should draw a gold market to Berlin, I am inclined to think that the attempt should at least be made. Whether it will be successful, whether the practical fears that the president has expressed will prove to be well founded, of that I can not judge with certainty; we must wait and see; we should at least make the experiment. On the other hand, I do not count on any results from the plan of introducing gold premiums. That would be, in my opinion, a stillborn child, a measure that would at best cause other countries to draw in gold for their part in still greater measure. I should like also to mention that the complaint that our gold industry needs so much gold and takes so

much gold out of the market is quite incomprehensible to me. There is reason for us to rejoice that an industry which occupies such a prominent place in Germany is developing, and is thus also providing profitable and regularly paid work, and work besides for connected and subsidiary industries, such as that of pasteboard boxes. What will it signify if, out of a gold supply of billions, 100,000,000 is spent on the gold industry, especially as this expenditure contributes toward the improvement of the mercantile relations of Germany and of its balance of trade and balance of payments.

I may therefore say, in summing up, that I think that if the proposals of Herr Fischel are put into practice, there may perhaps result small—I do not deceive myself in the matter—very slight improvements in our gold supply. On the other hand, however, I wish to insist upon it that a change in the principle of our policy as to currency and banking would be extremely harmful. Just as I do not begrudge it to agriculture that its interests, too, should be furthered, so far as is possible within the limits of the functions of the Reichsbank, in exactly the same way I should be sorry, out of regard for the interest of the whole community, if the demands for monopoly which are submitted to the Reichsbank by Herr von Wangenheim and his friends, who have to-day unfortunately a great deal of influence, were to meet with any consideration. Through fulfillment of the agrarian demands, the Reichsbank would be seriously injured in the performance of its task, and great injury would be done to the fructification and advancement of the domestic money market—an advance-

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ment which is bound up with the activity of the Reichsbank and which is of service to the entire community.

Freiherr VON GAMP-MASSAUNEN. I will not express my opinion on the question of the taxes on grain; I will only make a remark to Herr Singer in regard to his erroneous rendering of my remarks about the introduction into this country of large foreign loans. I think he misunderstood me. Doubtless the interest on the loans brings about an increase in the items of our assets when we receive the interest regularly, but this has not always happened in the case of many foreign loans; they are often afterwards converted; it has often happened that only a third of the interest on a loan has been received. But it is certain that for the time there is a considerable change for the worse in our balance of payments. When we give out 1,108,000,000 marks in one year to other countries, then there is such a heavy adverse modification of our balance of payments for that year as to give cause for serious misgivings. For the rest, I will not examine more closely the question of these foreign loans. I think that by and large we have come to an understanding upon it. Herr Riesser and Herr Fischel take essentially the same position—that there are certain times (and Herr Mommsen also has now agreed that there are) when this importation means serious danger, and that, on the other hand, there come again times when we have a superfluity of money, so that the importation of sound paper—paper, so far as possible, of the first class—is of great service to our banks. So you see that we are agreed as to the main point.

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I observe likewise that the members of the commission in general are of the opinion that the arrangements already in existence are sufficient to prevent the importation of foreign securities at unfavorable times. It would indeed be better, I think, if it were not necessary to make use of such coercion—if the banks were to attend to the matter on their own initiative. I hope they will do it; they will certainly have public opinion on their side if they do.

One more word about the complaint that the industrial world is primarily to blame for the crisis in credit. This complaint was put forward by Herr Singer, by Herr Roland, and also to a certain extent by Herr Fischel. Herr Fischel said: "The first of the two evil conditions is the highly developed and overwrought state of affairs in industries and trade." The highly developed and overwrought state of affairs! Well, gentlemen, with the conditions in the industrial world I am somewhat well acquainted. I admit that many industries have extended their investments on the supposition that the existing need of increased production would be permanent. But I can not admit that because in the last crisis—partly in consequence of speculation and partly in consequence of a lowering of the workmen's purchasing power through a lowering of their wages—many factories had to curtail their production, it follows that the increase of production was unjustified and unsound. Most of the factories have indeed managed their investments to suit a permanent need, and that is a creditable thing for them to do. For if next year, or two years from now, the textile industry

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and other branches of industry that have had to cut down their production should again have a larger market, and if the workmen and the people of many other classes should again make those needs felt which are now withdrawn on account of the decrease in their incomes, then it would be impossible to satisfy these demands if the enlargements had not taken place. Besides, these enlargements did not cause much money to be withdrawn from business in general, for what money the factories used up through their additions went back into the other branches of domestic business. Speaking generally, it is impossible to suppose that our industrial capitalists have been so foolish as to make investments of the lasting necessity of which they were not convinced. I must protest against the notion that from the circumstance that particular investments have not now, within a short space of time, been utilized, the conclusion can be drawn that these investments were unnecessary. It is quite possible that the industrial world has gone farther in the development of its investments than was called for by the momentary need. Above all, however, as I have but lately remarked, it is the business with foreign countries that is restricted during a crisis; and the domestic business is restricted only in those times and in those branches of industry in which unfavorable trade conditions prevail. But on all sides it is said that only through an improvement in our balance of trade—and here manufactures play the leading part—can an improvement of our unfavorable conditions be introduced. But surely one can not make both these complaints at the same time; one can not say that

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manufactures are being too greatly extended, and that they must be further extended in order that more money may be brought into the country.

Gentlemen, if it were as easy to keep track of the money and credit situation as it is to determine the temperature with a thermometer, then, Herr Kollege Singer, we, too, could become Reichsbank directors. But the matter is not so simple as this. It will not do simply to make an automatic reading on the barometer and say now the rate of bank discount must be raised, now it may be lowered—no, the matter is not so simple as all that.

I come now to the chief point that I wish to make. I wish to express to our colleague, Herr Fischel, my thanks for having practically taken the same ground that we take in his judgment of our monetary system and having left behind him those who have hitherto always maintained that our monetary system is admirable; that the Bank administration could have done nothing but what it did; that it could not have brought in gold from abroad, because it would have had to pay for the gold, etc. Now comes Herr Fischel, a very prominent expert, and says the development of our monetary system is considerably behindhand, and that is the chief cause of the crisis. We did not see to it in time that the stock of gold in the Reichsbank was considerably increased. This is the mistake that we have made in the Reichstag ever since the time of the former bank administration, and I am delighted that our view is shared by such a very distinguished expert. I think that we have reason to be particularly grateful to him for this. What has Herr Fischel said,

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gentlemen? Exactly what we have said in the Reichstag—in quiet times the Reichsbank should increase the stock of gold beyond the quantity needed at the moment, in order that it may not meet with difficulties in doubtful times. The difficulty has not arisen from the fact that the Reichsbank raised the rate of discount to 7 per cent, but from the fact that it did not take precautions against its being necessary to do so. We have not made our attack against the doctor and the medicine, but have complained that the disease was able to get a hold because of the insufficient care taken for the improvement of monetary conditions. This was clearly stated by Herr Fischel when he said that the Reichsbank must increase its stock of gold. I, for my part, wish to add whatever weight I can to this counsel. I think it will find favor in the whole body of the Reichstag. The Reichsbank should be obliged to obtain for itself supplies of gold in much greater measure than it has hitherto done. Gentlemen, is this not cause for serious misgivings, that at the end of 1907—I am giving only round numbers, Herr Fischel has, I believe, given the exact figures—900,000,000 marks of gold——

Mr. FISCHEL. Only metal.

Freiherr VON GAMP-MASSAUNEN. But you were speaking of gold; otherwise there is an inconsistency.

Mr. FISCHEL. It was Herr Geheimrat Wagner who said that.

Freiherr VON GAMP-MASSAUNEN. No, you said it——

Mr. FISCHEL. Metal.

Freiherr VON GAMP-MASSAUNEN. But if it is metal, the two things do not hang together. I made these notes

under your name. At the end of 1907 the stock of gold in the bank at Vienna was 900,000,000; in Italy it was 700,000,000; with us, 500,000,000.

Mr. FISCHEL. I said nothing at all about it.

Freiherr VON GAMP-MASSAUNEN. The main thing is, however, whether this fact is correct, and not who stated it. Gentlemen, here is reason for the most serious fears. If we now have only 720,000,000—

Count KANITZ. Eight hundred and twenty millions.

Freiherr VON GAMP-MASSAUNEN. Well, what is 820,000,000? Less than Vienna has—and in a country like Germany, with these enormous industries, these enormous demands made by foreign countries and by the commerce of the world. Herr Fischel is entirely right in saying that we need larger supplies of gold, and I wish to beg of you that you will take his warning to heart. Since the President of the Bank gave such hearty expression to his gratitude, I may assume that he too will take essentially this same stand.

Herr Fischel said, further, that the discount screw is really what is most important and most necessary. This is in a measure inconsistent with his other statement—that a considerable increase of the gold stock is necessary, and that this considerable increase in quiet times would largely contribute toward warding off serious difficulties from us. Quite right; but then, we should, I think, have less need of the discount screw, having taken precautions in another way.

Gentlemen, I should like to contest one point with our colleague Wagner, without entering otherwise into a discussion of his speech. He expressed regret—and he has

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done so repeatedly also on other occasions—that economic development in Germany tends toward a disproportionate increase in large fortunes on the one hand and in workmen's incomes on the other. I think that if one examines the statistics of property in Prussia one can not admit that this judgment is sound. I admit that the artisan class and the small tradesman class have not shared in the increase of prosperity as much as the workman class has, or as much as I, too, think would be desirable. But I should like to ask him to consider that the increase in wealth that has taken place among the uppermost classes is to be traced chiefly to an improvement in the equipment of manufactures and trades and to the increase in the value of land. Every manufacturer spends most of his income in improving his industrial plant, and every landowner spends most of his income, too, in adding to his industrial and agricultural improvements. If you investigate the matter in the case of a landowner who ten years ago was worth a million and who is now worth two or three million, you will find that these three million owe their origin chiefly to the fact that the cattle, the buildings and machines, the improvements, such as drainage—in short, that the value of the property has been considerably increased through the efforts of the landowner and through the capital that he has put into it. This is the case also in large manufacturing industries. This, however, is not a regrettable state of things, but one greatly to be desired. Many industrial enterprises have worked themselves up by their own force and through the energy and industry of the entrepreneur, so that they have

grown out of quite inconsiderable beginnings into world undertakings. Into what economic and financial want we should fall, if these entrepreneurs had not made such improvements in their arrangements. Thus, here in Germany, a concentration of movable capital has not taken place to the extent that our colleague Wagner thinks it has, even in the joint stock companies. For instance, I have lately heard, to my astonishment, of a joint stock brewery, I think in Anhalt, in which hundreds and thousands of the shareholders are small artisans. I can give other examples of the same thing. From the circumstance that joint stock enterprises have been enormously enlarged, it by no means follows that great holdings of capital have been increased. I maintain that most of the wealth of the richest people originated in, and is represented by, values fixed on the land that were created by labor, intelligence, and savings laid by. To deplore this development, and to wish to check it, seems to me unwise, and even very harmful to the national interests.

One more word, gentlemen, as to our stock of gold. Some one said that the figures relating to the stock of gold depend upon the estimate of an American bureau, "which is well known to be most reliable." Thereupon one of the experts, or one of the members of the commission, said that these estimates depend upon the data given by our embassy. But now it appears that they depend primarily upon a tabulation of the amounts of money coined and of the excess of importations over exportations. Gentlemen, that this principle is absolutely fallacious becomes at once evident from the enormous use of gold in the gold merchan-

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dise industry. We now use from 80,000,000 to 100,000,000 marks a year. Assuming that for the last twenty years the industry has needed on the average only 50,000,000 a year, that amounts to 1,000,000,000 for this industry. I am glad to be able to state that all the members, so far as they have yet spoken on this question, consider it very desirable that there be a more reliable determination of the gold supply of Germany than there has hitherto been. We surely can not rest our whole monetary system upon such an unreliable bridge—a bridge which, as is everywhere recognized, is built upon absolutely insecure supports, since the industrial use of gold has not been sufficiently considered, and there are other factors that have not been considered at all. Representatives of the Reichsbank have repeatedly assured us that we have a superabundance of gold in the channels of trade, that we do not need to have the gold in the Reichsbank, since our chief reliance is on the gold in actual circulation. If it is true that we have 4,400,000,000 of gold in Germany, then, to be sure, we can force a few hundred million of gold into the Reichsbank through the issue of small notes. But if it is true that we have only 2,400,000,000 of gold, as I think may be the case, then our monetary situation is very serious; then we absolutely must follow the advice of Herr Fischel. I maintain that there is on all sides a desire to obtain more trustworthy information as to our stock of gold than is now forthcoming.

How this is to be done is of course a head-splitting question. I admit that there are many difficulties in the way of the census. But I do not go so far as to say that

the result of the census would be valueless. If we undertake this census in the case of all stores of money that have anything like a public character, and, further, among the banks, bankers, and joint stock companies (cases in which no objection could be made), and also (through the agency of the chambers of commerce and agriculture) among the manufacturers and landowners, if we do this, I do not think—at least the experiment is worth making—that the people asked will in many cases declare: “I will not say how much gold I have.” And if the census is taken on a Friday, when most of the wages of the workmen are used up, then a practical result will be reached. Further, if this census should be repeated every year and the result compared with that of the earlier years, then some approach to the truth would surely be made.

Herr Fischel has very properly pointed out how unreliable are the figures of the statistics of imports and exports. Bank Director Mueller calculated that last year we had an adverse balance of 2,000,000,000 marks. Herr Fischel said he was convinced that we had a favorable balance.

Mr. FISCHEL. But not balance of trade!

Freiherr VON GAMP-MASSAUNEN. Well, then, balance of payments. Herr Müller estimated the amount against us in the balance of payments at 800,000,000; Herr Fischel thinks that the balance of payments was in favor of Germany. This means a difference of 800,000,000 or 900,000,000. And are we now to rack our brains about measures that are suitable and necessary for the cure of our financial conditions, when the principle upon which

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we are working is an absolutely unreliable one? Clearly we must have other material to go upon in relation to the gold supply. I can only repeat, therefore, the eager wish that in some way or other some such determination be made; and I do still consider the way I have indicated as the best by which to arrive at a correct figure, an absolutely correct figure being unattainable.

The proposal of Herr Geheimrat Lexis was at first attractive to me. But I think it would involve still greater difficulties, and I am inclined to think that from the start there is a source of error in it. When gold is melted down for industrial use, of course the new gold pieces are taken, since these are the most useful. Still one may assume that, if the 20-mark and 10-mark pieces have been only slightly in use since the beginning of the seventies, then many of them must have already been melted down, or many of them must have been exported. In so far this measure still has a certain value. I should also recommend it as a means of confirming the results of the census in case it does not involve too great difficulties.

Then there is a point that is still in dispute, in which I admit at once that our colleague Fischel has the greater insight and the more expert knowledge. How do things stand with our foreign workmen? It would certainly not be too much work to determine about how much money these people earn, and about how much gold they take out of the country with them; the first could be determined by the chamber of agriculture. I can tell you what the Poles have earned on my estate; I can also

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give a rough estimate of what they have spent. It is therefore known how much they have kept in all. But people say that gold has been found used for purposes of smuggling on the Russian frontier.

I can not but think, if my memory is not deceiving me, and if what has been reported is correct, that this smuggling can be managed only by way of the foreigners exchanging their paper money for gold here and then crossing the border with Russian money, and that it can not be done by getting the gold exchanged on the Russian side of the border. I can not examine further into this question, but I hope that it will be cleared up. It must be possible to have the situation on the frontier investigated by experts, in order to find out whether it is as Herr Fischel has stated—that German gold is here exchanged for the foreign money, and that consequently people go out with Russian bank notes and leave the gold here—or whether they cross the border with the German gold and then exchange it there. That is, of course, of extreme importance as to the whole movement of gold. I would therefore request that we be provided with the most reliable information possible concerning this question also.

It might also be considered—and I should like to raise the question—whether, since a large business at the frontier is concerned, an official bureau of payment and exchange could be instituted for the foreign workmen, at which they could obtain paper rubles. Undoubtedly the station restaurant keepers and the smugglers derive a very great profit from this business of changing money,

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and the workmen are probably sadly cheated. It is also to our interest to prevent them from taking gold out of the country; and this will, perhaps, be prevented if some such official exchange agencies are opened on the frontier and paper rubles are provided for the workmen, who use in Russia the silver ruble, and after they are once there spend nothing but rubles. I think the workmen will then make a better bargain, and we shall certainly succeed in securing the gold.

I beg, then, that you will give your minds to this measure. These are certainly very difficult problems; but I think our Reichsbank has solved problems more difficult before now, and will be a match for this one also.

Doctor LEXIS. Gentlemen, I should like to say just a few words, since my suggestion of yesterday has been brought up again. In the first place I wish to remark that my proposal is not an entirely new thing. In England, at the end of the seventies, data of this kind were obtained; it was found out how many sovereigns there were of the different coinage years since 1817. To be sure, this was done only on a small scale; perhaps a million coins were examined in this way. Nor would my proposal go so far as to suggest that the whole of the gold in the Reichsbank be thus examined; that certainly would be a gigantic undertaking. But I think that if one were to take gold pieces that come fresh from circulation, approximately the same relations between the numbers of coins of the different years would be found, if only a few hundred thousand pieces were examined, as those which obtain

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in business at large, especially if the counting were done at the different bank offices of the whole Empire at the same time. It would be enough, in my opinion, if at every bank office one official were to spend one day upon it; he would sort in this way from 1,400 to 1,500 coins in one day, and this could be done at a few hundred offices. The dates are marked pretty distinctly, so that it would not be a very great piece of work. In this way (always on the supposition that approximately the same percentage obtains among the outputs of the different years when these few hundred thousand pieces are examined as obtains in business at large) one would obtain series of percentages for the thirty-six years during which gold pieces have been coined. Now, then, if one were to take these percentages of the coins examined, and if one had besides the amounts of the annual coinage, one could determine with tolerable accuracy how much is left, relatively, of each year's output. It is true that the coins used industrially will probably be always the newest ones; on the other hand, such as are taken into foreign countries will belong to all possible years of output. It would then probably become evident that only a very few of the pieces coined in the seventies are left, and one would properly assume that those that are missing have been carried out of the country or melted down. I think that in this way there could be obtained a certain basis for making an estimate; and in England, as I have said, the experiment has been made, although for a different purpose.

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Mr. MOMMSEN. Gentlemen, just a word in reply to the remarks of Count von Kanitz. He referred to a brief observation that I made yesterday, but he did not understand me aright. If I said that in determining the balance of payments we assigned too small a figure to the amount of our trade profits, I still maintain that this is so. But he put it that I had counted the trade profits in with the balance of trade and had assumed that the trade profits must belong to the balance of trade. This is certainly not the case, nor is this what we are now concerned with. All the profits made by our German trade, in so far as they come from money that is earned in foreign countries, are shown not in the balance of trade, but in the balance of payments, and this is precisely the consideration that strengthens me in the view advanced by Herr Fischel—that our balance of payments, which is one of the first things to be taken into account in dealing with banking questions, is not necessarily adverse. Think of the North German Lloyd and the Hamburg-American Line. You have mentioned the dividends of the North German Lloyd and said that they are small. It is true that they are not of very essential importance. But a large part of the whole gross revenue of the North German Lloyd and of our large steamship companies is made up of money that comes in from abroad; it consists in freight charges and profits which are paid in large part by foreigners, while the expenditures remain mostly in this country. In this way our balance of payments is improved by a considerable amount over and above the trade profits. I have wished to make this remark simply for the purpose of preventing a misunderstanding of what I said yesterday.

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Now, one word more as to what has been said here about the study of political economy. I agreed throughout with the opinion of Herr Geheimrat Wagner in so far as it was concerned with the better education of our officials in political economy, especially of our North German officials. But I have not meant to imply that I should not trust a man to get the run of things by experience, even if he had had no training in political economy in his youth.

And another word as to what Herr von Gamp said to-day about the foreign loans. I think that the statement of the case that he has given us to-day meets with the agreement even of those who protested very vehemently against his first exposition. On this ground, at any rate, we shall find ourselves agreed, for this is exactly the ground always taken by the German banking world in the placing of foreign bank loans, and this is proved, as I remarked yesterday, by the very extracts from statistics that have been submitted to us.

But now let me turn to the speech of Freiherr von Wangenheim. I think that by the very valuable exposition that we have heard to-day from another representative of agriculture, who is also a member of the commission—from Herr von Cetto—we are saved the trouble of going back at all to the speech of von Wangenheim. This gentleman has given himself out to be the representative, in this body, of agriculture. Herr von Cetto has rightly said that he is not, in the sense implied, a representative of agriculture, and I think we really need not concern

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ourselves further with his remarks. Moreover, Herr von Wangenheim has announced that in due time he will submit these opinions to the Reichstag when it is deliberating on the banking law. In that case we shall again have the opportunity of replying to them, if it is necessary, but I think that they are not such as to render it at all necessary.

The CHAIRMAN. Gentlemen, it is nearly half past 12. I should like to close our debate for to-day.

I am anxious, however, to make just a brief reply to a remark of Freiherr von Gamp concerning the former bank administration; I should not like to have it go unquestioned. Gentlemen, remember that not only was the development that took place in our own economic life in 1906 and 1907 a very extraordinary one, going beyond all human expectation, but besides, at the very time of greatest tension, there arose an international money crisis and America's gold famine. Gentlemen, one can understand how, under these circumstances, when an economic development goes on at a tremendous rate throughout three years and then becomes so extraordinarily complicated, the gold holdings of the Reichsbank should fall off to an unusual extent. But I think we are not justified in forming out of this a serious charge against the Reichsbank; we are not justified in charging the Reichsbank with failing to take the care one might have expected it to take, and thus neglecting to devise precautionary measures for these critical times. Gentlemen, this is not right. In reference to the conditions which were indicated by its experience, the Reichsbank administration had in every respect adopted these pre-

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cautions. Even in the years before the crisis it tried to draw to itself large quantities of gold; many of the facilities which we now give, it secured even then, and we are now only building those roads which the former bank administration laid out.

Gentlemen, if you look at the statistics you will find that in 1905 the stock of metal in the Reichsbank had already risen to 1,147,000,000 marks. That is as high a figure as our largest stock of metal this year has reached, and judging from the experience of the bank administration in earlier times of economic excitement this stock of metal might well have been expected to suffice, even for greater upheavals than had occurred in the past. That this stock did not fully hold out in the case of such an unexpected attack as we have had can not properly be counted as a mistake of the Reichsbank. Even the heavy losses of gold in consequence of the American demand for gold in October and November, 1907, were in great part made good in the same year through the efforts of the Reichsbank to collect gold, even at this difficult time and even though it involved losses.

Gentlemen, while we live, we learn; and from this the former bank administration, as I should like to make you see, never tried to be exempt and never was exempt. We now have behind us the experience of the difficulties of the recent hard years, and this leads us to conclude, on the same grounds as before, that we must utilize every opportunity of permanently raising the level of the gold supply of the Reichsbank whenever circumstances favor our doing so. But, gentlemen, to cast blame, and such

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heavy blame, upon the people who did not foresee these conditions—this is, in my opinion, going too far, and one can apply to this case the old saying of the Rathaus—that one often leaves wiser than one enters.

[Very true!]

Freiherr VON GAMP-MASSAUNEN. I think that if the chairman will look through the stenographic report of my speech, he will see that it was far from my intent to make any personal attack upon anyone. Nor would this comport with my custom. The matter here in question is a fundamental view, a view which I myself have supported in the Reichstag for a number of years past, but which has been always contested to the uttermost by the bank administration and by other members of the Reichstag, as well as by the private banks. You will therefore understand, I imagine, why I have laid stress on the fact that a prominent member of the banking world has taken practically the same position, and why I have shown that my view did not deserve the unfavorable judgment that was accorded to it.

The CHAIRMAN. Gentlemen, I should like to close our session for to-day, and to ask that we meet again tomorrow at 10 o'clock.

(Close of session, 12.30 p. m.)

THURSDAY, *October 15, 1908—10 o'clock.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN, president of the Reichsbank direktorium. Gentlemen, I beg that you will continue yesterday's debate.

Doctor WAGNER. Gentlemen, I wished to permit myself a few remarks in reply to the speakers who treated the question yesterday, and at the same time to examine a few points with which we have been concerned for the past few days. Here is one point that I think needs further consideration. It has been truly said by Herr Roland-Lücke that the ups and downs of economic life are not to be avoided, and that one must therefore adjust oneself to them. Herr Singer, too, who is not now present, has touched upon this question; his theoretico-practical standpoint is well known, and he has, naturally enough, emphatically stated that he can not start out from that standpoint and enter into a discussion of the questions involved. He pointed out what enormous variations we have had in our economic life, and intimated that it was our business to get rid of them—an impossible task, however, with our economic system. It is, however, perfectly true that even in our economic system we ought to keep before us this object—that of lessening the wave movements; though it is certainly a question whether this can be done, and if so, to what extent.

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I grant Herr Roland-Lücke that we shall not be able completely to prevent the ups and downs of economic life. How very much economic life even now depends upon these variations, in spite of the international equalization of the differences in the harvests of grain and other agricultural products in different years. This dependence would probably not be got rid of even by socialism. The influence exercised by the weather will always enter into the case; we shall always have variations in the harvests which must be reckoned with. But this question still arises: Even if we can not put an end to the undulatory movements, to the wave mountains and wave valleys, in the economic life, are we doing nothing to make the wave mountains still higher and the wave valleys still deeper? I think that we must here ask this question: Does not our entire organization as to money, credit, banking, and the bourse, and also the activity of the great leading joint stock banks, contribute toward bringing about the result that as soon as a somewhat favorable conjuncture shows itself there is altogether too much starting of projects, speculation, issue of securities, that everywhere the factories, etc., expand too rapidly and too much, that circulating capital is converted more and more into fixed capital, tied up in great investments, everybody counting on a constantly increasing sale of products, which does not as a matter of fact take place? At this stage in the process of development, the bourses and also the great leading banks take hold with their activity in the placing of securities and bring about a still more rapid development which leads to correspondingly more intense reactions.

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I think it is incontestable that we see here an increase in the upward movement at a favorable conjuncture, which is inevitably followed, at an unfavorable conjuncture, by a downward plunge of correspondingly greater severity; that consequently the organization of our money, credit, bank, and bourse system, instead of equalizing and leveling the wave mountains and wave valleys (to retain the figure), make them still higher and deeper. I think that this is shown by recent experience, if we disregard in this connection the influence of occurrences in America upon occurrences here. But America itself may serve as an example. Syndicates, cartels, trusts, and the like, of which it was prophesied that they would narrow down the fluctuations of economic life, have done so satisfactorily neither in America nor here. This has become evident precisely in recent years. I think that, as Herr Stadtältester Kaempf lately pointed out, great dangers arise from the fact that a temporary favorable conjuncture is too much utilized by banks and the bourse, and that violent reactions are the inevitable consequence. This seems to me a point of great significance for the questions with which we are here concerned.

I wish to mention another point which is directed primarily against certain remarks of Herr Mommsen. We have already spoken of the matter in private talk, but I should like to bring it forward once more in this assemblage. I refer to the question of the flotation of foreign loans. I did not yesterday question the fact that theoretically our German capital must participate in foreign loans, and also in other loans, such as state loans, share enterprises, etc. But in this, too, one must take account

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of the other side of the case, and it is this other side that makes me doubtful whether we ought to encourage flotations of foreign paper, the introduction of our capital into foreign loans. Herr Direktor Mommsen and the other gentlemen who are immediately connected with his profession take the ground that on the whole the gains from the foreign loans are greater than the losses. He called attention to the fact that the public has on the whole made a profit, and that this is economically important. In one sense I, too, agree with this, but in another sense I have my doubts. Can one regard what is called "the public" as a unit? The public is composed of different elements. I will name only two—the great capitalists, to whom the banks belong, and the small capitalists. Even if on the whole, in spite of losses, profits may have been left over for the "public in general," still the losses have predominated for the capitalists of moderate and of small fortunes. I myself have instances of this—not, happily, in my own person, but in people that are in close relation to me, and I know what losses have been suffered from paper of very different kinds. The Portuguese, we are told, should not be mentioned any longer; but American and other paper can also be adduced.

Thus the upper section of the capitalistic public has made profits, while the lower section, that of the small capitalists, has lost—that is, the national wealth is again unevenly distributed. The gentlemen shake their heads; well, let them answer me. This brings me to another point. I am sorry that Herr von Gamp has gone out. I wished to address myself to him. I am glad he is just

coming in again. He referred to the joint-stock system in disproof of my view of our having arrived at a more unequal distribution of national wealth. Well, I submit it to you to say whether this is altogether right; for, even if many share enterprises are so situated that a part of the shares goes to the small and moderate capitalists, still a larger part certainly belongs to the large capitalists. But this is not the point with which I am here concerned. I am here concerned with the point made by Count Kanitz and also touched upon by Herr von Wangenheim. It is a point on which I agree with them, and, though I spoke of it yesterday in private conversation, I should like to bring it up in this assemblage also. I refer to the phenomenon we find in our present economic development—that, as is shown by the Prussian income-tax statistics and also in the property-tax statistics, we have a much larger increase in the number of persons with large incomes—the number of these has in general more than doubled—a much slighter increase in the number of persons with moderate incomes, and a great increase in the number of those with small incomes, and further that both the large incomes and the small ones are increasing on the average more rapidly than those of moderate size.

What is the final result of this, if, for example, it be graphically represented? Just as Count Kanitz and Herr von Wangenheim have said, the head above is growing thicker and thicker—some one said, rather maliciously, that it was getting to be a sort of big hydrocephalous man—the waist in the middle is growing smaller and smaller, and the belly below is getting to be bigger and

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bigger, and better and better fed. It is shown in the fact that we have a far from inconsiderable number of much richer people, both in income and in capital, than there were before; a considerable number of comparatively well-off workmen in the lowest classes, but a constantly diminishing, or at least relatively diminishing, number of people with moderate incomes. If we regard the national income as a whole, if we represent it graphically, we are reminded again and again of a picture first drawn by Rodbertus. What we may call the natural, normal pyramidal shape of the national income passes over into another shape—more like that of a bottle, one might say. Let us fix upon this picture: A thick belly, the lowest class; a neck growing thinner and thinner, the middle class; and at the top, a thick head.

On the basis of the data which Herr von Wangenheim cited, I assert again, as I have done before, that if you consider the persons in Germany who have, say, 100,000 marks income—and among us these must be reckoned as rich—the number of these has increased in the course of the past fifty or sixty years, within the bounds of what is now Prussia, approximately (naturally the figures are never quite exact) from 100 to 3,600—that is, they have multiplied thirty-sixfold, as no other class in the census has done in these years; and if we determine their aggregate income as a fraction of the entire national income, we find that precisely in the comparison of percentages the really rich class shows an increase in relative as well as absolute income, while the percentage of the middle class has become somewhat smaller, and the percentage of the lower class

larger. These are developments that trouble me, and it is this that I wish to emphasize, and in opposition to which Herr von Gamp adduced figures which in my judgment do not prove what he endeavored to prove against me. This is all that I wished to say.

Doctor RIESSER. Gentlemen, the remarks of Herr Geheimrat Wagner, which are merely a completion of what he said yesterday, show that one may arrive at quite different conclusions not only if one starts from different statistical data, but also if one seeks to draw one's own conclusions on the basis of the same statistics. And when two persons read the same thing, the conclusion they draw from it is not always the same. For my part, in order that the representation of the matter be not one-sided, I would say I regard the picture of the hydrocephalous man as altogether incorrect. I particularly wish to point out that in the period in which we find ourselves (i. e., from 1870 on) the number of those who advance from a lower to a higher taxation stage has been constantly increasing—a circumstance which, in contradiction to what Herr Geheimrat Wagner has brought forward, appears to me to illustrate precisely the right, the healthy, and the steady progressive development of our economic condition. Accordingly, I further believe that the resulting increase of the number of persons belonging to the higher taxation stages, which he deplures, is natural, and should be welcomed and rejoiced in. Even from the standpoint he adopts, it is much less dangerous than he represents it to be, for it goes without saying that precisely the class subject to highest taxation, as distinguished

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from all the others, can not deliver over any members who have grown richer, while it is continually being fed by the upward pressure of the other classes. I am very far, therefore, from seeing anything ruinous in the circumstance that the number of those who have an income of over 100,000 marks has considerably increased in the present epoch. I look upon it rather as a very welcome indication that our hard work in the last few decades has not, after all, been without results, and that we, too, can point to a happy beginning of a more extensive organization of capital, of which there was pressing need.

Moreover, there is another fact not less important, but always overlooked or disregarded by Herr Geheimrat Wagner. This is that there has always been a relative increase—relative, that is, to the general increase of population—in the number of those who rise out of the class of nontaxpayers (in Prussia this consists of people with less than 900 marks income) into the class of taxpayers. This fact can be proved in detail for Prussia as well as for Saxony. For example, the number of persons subject to an income tax in Prussia increased between 1892-93 and 1898-99 by 19.5 per cent of the whole number of persons subject to an income tax, while the population in these six years increased only 8.2 per cent. The report, too, of the imperial marine bureau in December, 1905, on "The development of German marine interests in the last decade," establishes the fact that the incomes of the middle and lower sections of the people also exhibit a considerable and lasting tendency to expansion.

This can be denied or misunderstood only if one speaks constantly and insistently of the increase of wealth in the

upper classes as a danger of "plutocracy" and pays no heed to the fact that the savings-bank statistics, for example, seem to prove—at least, I am convinced they do—the opposite of what Herr Geheimrat Wagner has just said:

Doctor WAGNER. I admit that in the case of the working classes.

Doctor RIESSER. In the case of the *lower* classes: To these belong not only the working class, but all those classes that make savings without investing them in securities; investment in stocks by the propertied classes only begins at about 3,000 marks. These savings-bank statistics show that the number of savings-bank books in Prussia more than doubled itself from 1882 to 1897, and the amount of savings-bank deposits more than tripled itself in the same time; that in Prussia at the end of 1903 there were many more than 9,000,000 savings-bank books, with much more than 7,000,000,000 marks of deposits, and that there was one book to every four inhabitants, whereas in 1882 there was only one book to every eight inhabitants. At the end of 1903 the savings-bank deposits in Prussia amounted to 7,230,000,000 marks; at the end of 1904 to 7,750,000,000 marks. Accordingly, the aggregate of deposits in Prussia, which in 1895 was only 4,000,000,000 marks, about doubled in nine years; and we know, from the statistical yearbook of the German Empire, that at the present time the entire amount of all savings-bank deposits—only Braunschweig is wanting, because the figures could not be ascertained there—is about 14,000,000,000 or 15,000,000,000 marks. Accordingly, the assertion that the lower classes have steadily gone backward as to their

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means, not to speak of this being caused by foreign loans, is absolutely incorrect. In this connection I will not go into the question whether there is any reason to suppose, in any case, that persons belonging to the lower classes invest their money in foreign loans. I should answer this question in the negative.

But, so far as regards the foreign loans themselves, I would refer to the remarks which I made at a former session upon the necessity and usefulness of foreign loans.

Mr. KAEMPF. In reference to the speech of Herr Geheimrat Wagner I should like to make a few remarks. He started out with the assertion that the banks intensified the wave lines of the economic conjuncture by an untimely activity in promoting the flotation of securities. I have to controvert this. The banks do not put out securities arbitrarily, but only when state, communities, and industrial companies need to raise capital. And they can place securities only at a favorable time; they can not do so in bad times; they are obliged to wait for the favorable conjunctures in order to be able to put out securities—not for their own sake, but in order to satisfy the requirements of those who issue the securities through them.

However, I have taken the floor not only for the purpose of contradicting the assertions of Herr Geheimrat Wagner but also because I wished to return to the complaints made at the close of our session yesterday by Herr von Gamp in regard to the conduct of the Reichsbank, which, to be sure, have already been reduced to their proper proportions by his excellency, the president

of the Reichsbank. I consider it necessary that these complaints be replied to from out of the general ranks of the commission also.

Gentlemen, the president of the Reichsbank has already mentioned two factors that have made the task of the Reichsbank in recent years uncommonly difficult. First, the great need of our own country, and, second, the quite unexpected and unusual need of America, which drew gold from us, *coûte que coûte*. I should like, however, to advance still a third point—that in the midst of these difficulties agitations have arisen which have given occasion for doubts as to the certainty of the Reichsbank notes being redeemed in gold. These doubts were transmitted to the public and to foreign countries, not, of course, by intention, but the actions of those who have made motions on the subject in the Reichstag and who have roused these doubts outside the Reichstag through newspaper articles and speeches—the actions of these people have had the effect of arousing mistrust abroad. I myself have often been met abroad by the question, Can you in Germany still pay your notes in gold and will you pay them? These questions have arisen in view of the agitation that was made to increase the payment-power of silver; in view of the agitation that was directed toward allowing the Reichsbank notes to be redeemed in silver as well as in gold after the payment power of silver should have been increased. I know the contents of a letter from one of the foremost foreign banking institutions, one that was constantly present at the bourse as discounter of mark bills; the contents, I say, of a letter

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that declared that doubts had been expressed as to whether these mark bills might still in the future be looked upon as a gold reserve.

Gentlemen, of the three factors which have weighed so heavily in recent years upon the Reichsbank, this third one has, to my mind, been the most grievous.

[Very true!]

If we are now to rack our brains over the question of how conditions can be changed in the future, then, in my opinion, the most important thing of all is that these agitations be once for all put an end to and that no doubt may ever again arise as to whether the Reichsbank will fulfill its obligation of redeeming its notes in gold; but when I consider all these three factors together I am obliged to conclude that the Reichsbank deserves no blame, but that, on the contrary, it deserves the very highest praise for having been able to cope with all these difficulties. The Reichsbank and our gold standard have stood their trial by fire precisely through having contended with these difficulties.

[Bravo!]

Mr. ROLAND-LÜCKE. I gather from several remarks of the speakers of the last few days that I have to reproach myself with not having expressed myself with sufficient clearness, in my speech last Monday, in respect to two points which I consider not unimportant.

Herr Singer remarked yesterday that I had designated the industries as responsible for the existing overtension in Germany. When I was endeavoring, last Monday, to explain the development of the causes of the overtension

sion of economic life in the past year, I did say that in the first instance the overtension was caused by a too hasty, and far too great, expansion of industry. That is true. But I then stated, I believe, with very special emphasis, that the industries are not to be reproached with having struck up this rapid tempo on their own unconsidered initiative; and I consider it important that the industries be not treated like naughty boys, since I have pointed out quite plainly that the real primary cause lies in entirely different factors.

I asserted emphatically on that occasion that industry has simply been dragged along, and that the real cause is the too rapid and immoderate expenditures of our Empire, its separate States, and our cities. Through this rate of expenditure of money, and through the opportunity thereby directly and indirectly afforded to industry of quickly getting extensive control over large industrial undertakings, we have been drawn into the too hasty tempo of industrial development. I never direct the reproach to the hand which is mechanically set in motion; I direct it to him who sets the hand in motion. The criminal of whom Herr Singer has spoken is therefore our Reichstag, the legislative bodies of our States, and the authorities of our cities. These have often not practiced the frugality, necessary from a business and economic standpoint, which corresponds with our means. They have thus set our industries going at too high a speed, and that is the cause of the trouble.

Gentlemen, it is much to be regretted if we in this assembly let ourselves be carried away by so many differ-

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ent ideas on this subject. If the Reichstag and the public bodies of which I have spoken, which hold the purse strings, had asked themselves on every occasion: From what source shall we take the money, and is that source at present so constituted that we can confidently promise the money?—then a better economic situation would have come about of its own accord than that which has come to pass.

In another point I seem to have been misunderstood in various ways. I said that if the political clouds that have lately loomed into view had not gathered, the beginning of a general economic improvement would seem to be not far off. Apparently these words have been taken to mean that I represented our situation as being already a very good one. Gentlemen, this is a very different thing. I thought that, aside from the political situation in the last weeks, I might speak of the beginning of an improvement as being near at hand, since after all a return to a normal money market, and a return of a calm and confident disposition toward it, has been achieved. In place of the former panic-like atmosphere—an atmosphere which, in the case of the world's great credit houses, was shown at the end of last year and the beginning of this by the fact that in all corners of the transmarine world even legitimate credit encountered great difficulties—in place of this atmosphere a normal condition has again arisen, and the necessary support given by transmarine commerce has again been more or less fully attained. The probability of a satisfactory issue of the presidential election in America brings us nearer to the fulfillment of

the necessary condition for a return to a more active state of enterprise. * In the Transvaal we see the gold-mining industry awakened to the liveliest activity after a lethargy of years, and from this industrial orders of great magnitude may be expected.

Gentlemen, if from these things I permit myself to draw the conclusion that the return of better conditions is approaching, I can not allow myself to be influenced by the fact that one gentleman has said in opposition to me that our spinning mills are all suffering, that their spindles are in large part idle. Yes, gentlemen, the spinning mills can not get back to a condition of satisfactory employment until the general earning capacity, the general conditions of wages for the great masses, become favorable. The spinning mills can not be fully employed until we are already in the midst of good conditions, with the great mass of the people in a position to buy the goods. I hope that in what I have said I have removed the misunderstanding which seems here and there to have arisen.

In regard to the flotation of securities, I am perfectly willing to concede—and I hope I may be permitted to point out that I have never allowed myself to speak here as a representative of a bank, which, by the way, I am not at all, but I speak from an entirely independent standpoint—I concede, I say, that here and there the introduction of foreign securities might perhaps better be postponed or limited. I have only to point out, on the other hand, that the establishment of an authority calculated always to assure a correct and wise limitation of this kind is a matter of impossibility. If you wish to have such a

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limitation put into force, this could be accomplished through the agency of existing authorities—for example, our Reichsbank and the Prussian minister of commerce. Whether these, however, could undertake and carry out a direct task of this kind in a really satisfactory manner is a point on which I shall not pass judgment. It will be found inevitable in the future as in the past that at times when a great need of investment makes itself felt, and the desire to enjoy higher rates of interest likewise comes to the front, the satisfaction of this need must be provided for, if we do not wish to drive money abroad in secret ways; for the man that wants to get higher interest will in most cases have his way under any circumstances, whatever you may prescribe and whatever you may do.

Herr Geheimrat Wagner has said that, even if we can not prevent the waves, we must at least try to cut off their crests, and I should like to point out still more definitely a general line of conduct. I imagine that the result of our whole inquiry will not in the least satisfy either the Reichstag or public opinion. We have to decide between this outward contentment, which we shall probably not create, and our own conviction that our joint deliberation will bring about, or has brought about, considerable and lasting practical results of a beneficial character. For I should like to point out once more—and I think the practical bank experts especially agree with me in this matter—that it will be no small thing gained if the Reichsbank does, as it has more than once declared here that it will, keep strictly to the practice of refusing

to discount illegitimate bills—that, is, such bills as are not based in a sound manner upon a short movement of goods or upon a short industrial process. The result of this policy would necessarily be as follows: Every discounter would be forced to keep only a very limited quantity of such bills in his portfolio as are not acceptable to the Reichsbank, for if he accepts them in larger measure he will have a portfolio which will fail him in any emergency. [Very true!]

But it is not only the willingness to discount that will be necessarily wisely restricted, but also the willingness and ability to accept illegitimate bills, for every acceptance house will for good or ill say to itself, when it is considering the acceptance of such bills, that if it does so a part of its acceptance will be thrown upon the market, which may very easily arouse suspicion against the institution or against the acceptor, and it will consequently be obliged to use moderation in the acceptance of such bills.

Now, this is the practical point which is of more importance than all the others. You may make laws as much as you like for the purpose of restricting the granting of credit that is in your opinion unjustified, or that is, let us say, somewhat too optimistic; still it is incomparably more important than any laws that the Reichsbank should maintain the principle which it expressly announced to us, and should act wisely in accordance with it; this is a result which, to be sure, we can not ascribe to our inquiry, for the Reichsbank itself took the necessary initiative in the matter, but which is the only thing that can avail at

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all to prevent the culmination of certain phenomena. And by this means, too, the whole question of flotations, so far as regards an excessive introduction of foreign securities, is sufficiently looked after. [Very true!]

The Direktorium of our Reichsbank, I repeat, by the use of means like this, which it is already at liberty to employ—though the employment of those means may perhaps create for the board here and there a somewhat unpleasant situation—absolutely holds the scales in its own hands.

Mr. FISCHER. Gentlemen, the nature of our deliberations is such that we are obliged to enter rather often into the discussion in order to revert to what has been said by our colleagues. We must gather up the loose ends and draw them tighter; often we must even straighten them out, if we are to have a firm weave and a proper pattern. This is my excuse for going back to some of the remarks of Freiherr von Gamp.

Above all, it has given me great pleasure to see that the discussion of the question of the flotation of foreign securities has brought about this good result: Freiherr von Gamp has now been led to agree—at least to judge from his speech of yesterday—with the majority of our colleagues. He recognizes fully the advantage, even the necessity, of foreign loans. I think it would be difficult to question it; for after all we must all desire that Germany, as an economic whole, should keep in reserve, or save up, a part of the result of its labors for a future time, in order that she may become more and more the creditor

of other countries. Suppose we took the opposite stand, the stand that seems to me to be implied in the memorial of Herr von Wangenheim; suppose we adopted and gave out this general principle: Don't bother about other countries; keep entirely to yourselves and work without reference to anyone else; well, that would simply mean that we are not to trouble ourselves about posterity. We should then be in the attitude of the famous Irishman who once exclaimed in the British parliament: "What has posterity done for me?" [Laughter.]

The question to which Herr von Gamp made reference is this: He now says—and rightly—that foreign loans should be brought to the German people; and he makes at the same time, as we all do, the reservation that this should be done in proper measure and at proper times. The proper time is, in my opinion, often ascertainable through the circumstance that at unsuitable times conditions affecting the rate of interest frequently form a dam. A certain amount of foresight will also be requisite; but in the realm of prophecy and foresight we are all more or less dilettanti. It is therefore perhaps not right for it to be said in certain quarters on every occasion and about every flotation: They were not well timed!

I should like, for example, to go back for a moment to the opinion expressed by Herr von Gamp, that the small Siamese loan was taken over at a very unlucky moment—at a time when we had no sufficient means of making foreign payments. We must suppose, then, that he assumes that the money for the payment of this loan left Germany at the very moment of the placing of the

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loan. I think, however, that one may easily be mistaken in such an assumption, and that it is quite possible for the money not to be sent away until later, when we can easily do without it. [Very true!]

Such precautions for the sake of the general economic good are often taken by the flotation houses when the agreement as to the loan is made. But I can affirm with particular pleasure that, since the speech made to-day by Freiherr von Gamp, there exists a general agreement as to foreign loans, and I shall merely express the hope that this agreement will be a lasting one.

It has been said here, gentlemen, that losses have sometimes resulted from the taking over of foreign loans. That is perfectly true; occasional losses have been incurred, and will, I fear, for all our precautions, be again incurred. But they are by no means so considerable as they are supposed to be; and permit me to say that if we follow the flotation of foreign loans through a long series of years we are forced to conclude that from the taking over of foreign loans Germany has derived very great profits, compared with which the isolated instances of losses are as nothing at all.

Reference has been made to the fact that there have been many conversions of foreign loans. This, too, is natural; this will always take place as a consequence of the natural changes in the rates of interest; and conversions are made not only in the case of foreign loans, but quite as much in the case of German securities. We all remember that in 1897 in Germany the great conversion of 4 per cent loans was brought about. It may be that the

lowering of the rate of interest on domestic loans also contributed to give the public for the time a greater taste for foreign loans. I wish to point out, however, that those who are desirous of our having very low rates of interest in Germany ought not to deplore overmuch this conversion of domestic and foreign loans; for it is impossible that the rate of interest on capital should remain high while the rate of interest on loans is low.

But now I wish to clear up a misunderstanding; I wish to show that, where Freiherr von Gamp has imagined a disagreement between my view and his own, there is really no disagreement at all. He seems to assume—and he certainly must have been reading between the lines to do so—that I said that the chief of those evils that have brought about the undesirable state of affairs is the immoderate development and the extremely improvident management of our industries.

Freiherr VON GAMP-MASSAUNEN. I did not quote you as having said that.

Mr. FISCHER. I understood you to do so. What did I say? That in the course of an upward movement we have overshot the mark. The boom to which I have reference unquestionably did exist; but this boom was not confined to Germany, but was all over the world; and it was shown everywhere by the great increase in consumption, by the great rise in prices, and by the great extension of business. In this sense it is, of course, true that the boom that arose and the excessive measure to which it was developed are together responsible for the conditions that have been evolved. But I had no inten-

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tion of saying that our industries ought to come to a standstill. I think, indeed, that this is clear from what I said in connection with other matters, since I made special mention of the restless activity of the German people, and described it as a blessing.

Of course, the manufacturers are only men—not gods; they will often make mistakes—that is unavoidable. And so it is clear that good times are sure to lead to optimism, and optimism to a certain overestimate of strength. But as to the necessity for the further development of our industrial interests, and the need of having them look ahead and effect an increase in their productive capacity—in this I am in complete agreement with Freiherr von Gamp. And I wish to lay special emphasis upon this point.

But there is, I fear, still another point as to which I have been misunderstood. Freiherr von Gamp seemed to assume that in bringing forward the figures of the average amounts of our stock of metal at different periods I intended a criticism of the management of the Reichsbank under its former president. Excuse me; I have much too great respect for the former president, Excellenz Doctor Koch, and much too strong a conviction of the services he rendered, for it to have been possible for me to express any such opinion. Since you have thus given me provocation, permit me to express, on the contrary, my conviction that Doctor Koch conducted the Reichsbank in the best interests of the whole economic life of Germany. I have also made special mention of my opinion that the regulation of the money market and the

maintenance of proper conditions in the bank with reference to the demands made upon it depend chiefly upon the policy as to the rate of interest, the rate of discount. I have also particularly pointed out that this discount policy has, in point of fact, been managed in the right way. I believe that those who wish a still more extensive influence to be exerted upon the condition of the bank can not logically escape from the inference that the rate of discount should have been still further raised in former years. But surely that would have given cause for a great deal of discontent. Yes, gentlemen, there will always be different views as to the degrees of such increase, and I think we ought not to require of the Reichsbank the performance of a task to which it is not adapted. The Reichsbank can not by its management exercise complete control over the economic life of the whole country; it can only influence it in a certain measure, and this it has done. But it is certainly not right that the very people who have opposed every increase in the rate of discount should hold the Reichsbank responsible for a condition of affairs against which it was precisely the Reichsbank that fought by means of its discount policy.

If I have permitted myself, gentlemen—and I am somewhat ashamed of the importance that has been attached to this matter—if I have permitted myself to propose as a minor measure that we establish a parity with England and America with reference to our price of gold, I should like to point out once more that I have always spoken of it as a minor measure. I warn you now, too, against valuing it too highly. I do, indeed, consider it worth while to

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try it, but we can not justly make it a matter of reproach to the Reichsbank that, its purchase price having hitherto been fixed by its regulations at 2784, it has acted accordingly; rather must we give it credit for having in many cases voluntarily allowed a bettering of this price by the granting of advances free of interest. We see, moreover, that importation during the last ten years has reached the large sum of more than 1,700,000,000 marks of gold, so that, after allowing a high figure for the industrial consumption of gold, we find that a sum of 700,000,000 or 800,000,000 is left over for our monetary circulation. If we do not find this gold in the bank statement, this is because, unlike the case in France, the public uses more gold than notes. A great deal has been said about this in the hearings of the experts. In spite of the increase of the gold circulation the note circulation has been greatly increased. It is worth while to try to work as far as possible with covered notes; on this account a further accession of gold would be desirable.

Now, I wish to express my complete agreement with those who recognize the extraordinary skill with which the present Reichsbank administration utilized the business situation of the current year, since it has strengthened its resources by acquiring gold, securities, and foreign credits. This skill has met with great success. But the Reichsbank administration itself will certainly tell you that, if it makes no delays and seizes the proper moment without hesitation, it is nevertheless, with all its successful activity, still dependent also upon conditions as they actually exist. Out of the movement of gold in the present year a great consolation and a valuable experience may be

derived. We see from it that it will not do to oppose a great deal of resistance to a temporary outflow of gold. The balance of payments, whether it is on the whole favorable or unfavorable, is a continuous thing, and does not end with the 31st of December as our statistical reports do. We must therefore often conceive of quite different periods from those which simply follow the calendar. It is certain that the exportation of 200,000,000 marks of gold in the past year has made it easier for us now to acquire gold. It has not only contributed toward bringing about a considerable improvement in the money situation in the foreign markets; it has also doubtless brought it about that through the resulting wiping out of debts the surplus remaining this year as a favorable balance from newly created gold credits abroad was correspondingly increased, and we had a greater power to purchase gold. We can only endeavor to utilize the favor of circumstances, and in some measure to moderate their disfavor. That, I believe, is our task. An overestimate of what we have to do, however, and a change of our economic system, such as is advocated by Freiherr von Wangenheim, would, I hold, be emphatically a mistake.

I should like to return now to a little technical circumstance. Herr Geheimrat Lexis has recommended that in order to determine as accurately as possible the amount of our stock of gold, we enter upon a count and discrimination according to years. I, too, have said in my discussion of the matter that I regard this as very useful; but I understood it not in the sense that the entire holdings of the Reichsbank should be counted, but merely that certain

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tests should be instituted within moderate bounds. But I believe, gentlemen, that, however useful this will be for the ascertainment of the composition of our stock of gold, yet the result will not enable us to arrive at any conclusion as to its amount. If, namely, we should actually ascertain what percentage of the 'so-and-so many millions of gold minted, for example, in the year 1875 are found, according to the examination, in a given quantity of 20-mark pieces, and what percentage of the coinage of other years, we should then be able to conclude how great the total stock is only if we knew in advance how extensive the melting of the coins of any given year had been. The object of comparison is wanting. Let us suppose that a million 20-mark pieces taken out of the channels of trade are examined with respect to the ratio of the coinages of the various years. We might then assume that the entire stock of gold shows a similar ratio for the years of coinage still in circulation, and this might have a certain interest, but could not tell us even approximately how great is the entire amount in circulation, because we do not know, either in regard to any particular year or in regard to the total, how much has been melted. I believe, too, that the English investigations which Herr Geheimrat Lexis mentioned, and which gave a valuable result, did not extend to this question. They were instituted for the purpose of determining to what extent an improvement of the English gold circulation might be brought about by a calling in of old coins. For this purpose, of course, the composition of the circulation is of great importance. I should not advise against a test of this kind, for I believe

that it would be interesting for us to know even the composition of our stock of gold, but I am afraid that it will not make possible any conclusion as to the probable diminution of the stock in the past through melting.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, I have never—absolutely never—expressed any opinion as to the personality of President Koch; still less have I ever made any personal attack upon him, and I am very sorry that the chairman should have brought up for the first time this personal matter. He ought to know that in the Reichsbank we have no autocratic constitution, but that matters are decided at the meetings of the direktorium. To what extent President Koch had a determining influence in that body I have not ascertained. But if I said anything about the policy of the Reichsbank in former times my remarks had reference to the legal organization of the Reichsbank, which, as I have said, centers in the Reichsbank direktorium.

Gentlemen, our colleague Kaempf has thought it necessary to bring forward another point with regard to the crisis of 1907 besides the two points that have already been discussed. If I have understood him aright, he directed his remarks against the Reichstag, or at least against some of its members. He has, it is true, admitted that the agitations have been carried on in good faith; but he said that the agitations in other countries may well have raised—and have actually raised—a suspicion that the Reichsbank is either not disposed to redeem its notes in gold or is not in a position to do so. These agitations must have seriously aggravated the situation,

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and I regret that encouragement should have been given to them from a quarter that certainly has less knowledge of the situation in the Reichstag than my colleague Kaempf has.

Gentlemen, I deny most emphatically that any expression of any member of the Reichstag can have been conceived to mean that anyone in the Reichstag wished to eliminate altogether the ninth article of the coinage law, "No one is obliged to accept imperial coins [*Reichsmünzen*] in payment beyond the sum of 20 marks." It was, indeed, hinted by a member of the Reichstag that, for the better protection of the gold standard and in order that the Reichsbank might be enabled to redeem large sums in gold at any time, this clause might be changed to read "not more than 1,000 marks," instead of "not more than 20 marks." As to the question of whether this change would have a wide practical bearing I will say nothing. At any rate, in wholesale and international business the matter at issue is not some thousand marks of silver money, but hundreds of thousands, and millions of bank notes. The 200,000,000 marks that we allowed to be sent to America would in any case have been sent, whether the stipulation of the coinage law had fixed the obligation to redeem at sums of over 20 marks or at sums of over a thousand. This statement is confirmed, moreover, by Herr Roland-Lücke.

Well, then, gentlemen, how one can direct these attacks against the Reichstag from a desire to come to the aid of the former Reichsbank administration, I fail to understand. Nor can I think that any foreigner, certainly any

foreigner who stands in close personal and business relations with our colleague Kaempf, can have been so foolish as to assume that this involves an abandonment or imperiling of our gold standard. On the contrary, even Herr Arendt, member of the Reichstag, who has repeatedly had the most strenuous differences of opinion with our colleague Herr Kaempf, no longer holds to the idea that the gold standard may in time be replaced by the silver standard. There is, therefore, to-day in the Reichsbank not a single member who desires to see the gold standard given up, nor one who does not accept as a basis the monetary system that has been developed. There is no longer anyone in the Reichstag who attacks the German monetary standard.

A few words more as to flotations. Herr Kaempf says that it is self-evident that flotations are made only in good times. Well, if that were self-evident, we should not find ourselves discussing it. It is not self-evident. We have heard from many experts that through an artificial depression of the private bank discount rate a feeling favorable to new loans is created, and the opinion is produced that the time is opportune for them. This question, however, has to my mind lost its significance, although Herr Fischel, in his remarks hitherto, has omitted to take a position on the subject.

Mr. FISCHEL. I deny that emphatically.

Freiherr VON GAMP-MASSAUNEN. So far as I am aware, you have not touched upon this point—I call that omitting it. I assume that you are also of the opinion that loans should not be brought in at unfavorable times. In order

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to remove misunderstandings, however, I should like to add that not only must the moment for the introduction of them be well chosen, but the paper must also be suitable—that is, it must have a wide foreign market, and must offer a satisfactory security, corresponding to the rate of interest it bears. I see no advantage in allowing all possible papers to be placed here—for example, such as after a few years have their value decreased by one-third by the States in question.

Herr Fischel too will therefore agree with me in wishing to exclude such securities as these from the domestic market.

Mr. FISCHEL. Then you must appoint an official prophet.

Freiherr VON GAMP-MASSAUNEN. Prophecy, Herr Fischel, is a very bad business. But it is surely obvious that such paper can not fulfill the purpose that it should fulfill.

[An interruption.]

Herr Mommsen, such paper as this can not fulfill the function of serving to settle international obligations in times of serious crisis. I should have been glad if some one of you had expressed an opinion in answer to my question of whether it was a good thing for us to get rid of our Austrian and Italian securities in order to buy American ones in their stead.

Mr. MOMMSEN. You were not present when I was dealing with the question.

Freiherr VON GAMP-MASSAUNEN. I am sorry. Then I will just touch very briefly upon the question.

If we obtain such paper as can be disposed of in the great international market even in times of financial,

economic, and political crises—*à la bonheur*, that is very fine. But I doubt it. In many cases positive knowledge can be had beforehand that the paper issued is not adapted to this use, and the banks must certainly have this knowledge.

I wish further to call attention to a difference between the part played by our banks and the attitude of our Bourse, on the one hand, in the placing of foreign loans, and what is to be seen in France on the other. In France this sort of foreign loans—tropical and other—are often permitted only when there is assurance that the money will be turned to industrial uses at home.

[Contradiction.]

Yes, indeed; there is often in France an express stipulation that the cannon, firearms, and so forth, must be ordered in France. The representative of Krupp will confirm this statement. Krupp has lost many orders because the French Government has expressly demanded that these things be made in France. If our banks also did this, if they took care that these sums should remain for the most part in Germany, then my attitude would be different even with regard to that kind of loan, since the money would then be of use to our national production. But since our banks do not do this, we have the situation of our often giving other countries the money, while they order their goods from our competitors.

A VOICE. That has never happened.

Freiherr VON GAMP-MASSAUNEN. Surely the representative of Krupp will be able to judge of that.

Our colleague, Roland-Lücke, has very truly said—and here I entirely agree with him—that the irresponsible

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borrowing right and left, and general mismanagement that has prevailed in the Empire, in Prussia, and in the municipalities, is chiefly to blame for our present want of money and credit.

Count KANITZ. Very true.

Freiherr VON GAMP-MASSAUNEN. I am, I believe, though perhaps 'somewhat late [very true!], still in time to step in as a most energetic opponent of this mismanagement. But, gentlemen, Herr Roland-Lücke is wrong in bringing this mismanagement into connection with the industries. If this mismanagement had not taken place and had not led to a considerable increase in the cost of credit, the development of our industries would have assumed far greater dimensions. What did hold them back somewhat in their process of extension was the high rate of discount, and for this we have to thank the irresponsible management in the Empire and in Prussia.

And now, just one more remark in answer to Herr Fischel. It was easy enough to see that he would find it very unpleasant to be drawn over in some degree to our side in the matter of the judgment upon the former policy of the bank and that it would be particularly painful for him to have the fact recorded here for good and all. The stenographic report can, I believe, leave no doubt that the reply I made to him is absolutely pertinent. He has, as I have noted, found fault with the development of our money situation and has traced the cause of the crisis to the high tension of industry and the acute crisis in America. If he says that our monetary relations have not been favorably developed and that we must,

therefore, endeavor in times of quiet development to bring about a considerable increase in the stock of gold—if he says this, then I really can not, so far as I see, come to any other conclusion than that the bank administration did not formerly give sufficient weight to this view; that the bank administration pursued a policy which was, both in my judgment and also in his, a mistaken one. For all that, one can have the utmost respect for the personality of President Koch. Our chairman, too, has made this point perfectly clear. He accused me of having been too severe in my judgment of the bank policy of that time. The bank administration could not, he said, have foreseen the development of things. All he has really done, then, is to plead extenuating circumstances, which I also gladly admit. But we are here to say a good honest word. The words of recognition that Herr Fischel has given to the present bank administration meet with my approval. But it can not be questioned that our present bank administration has struck out in a different direction from that taken by its predecessor. I have even been told by gentlemen who stand in close relations with you [to Herr Fischel] that the Reichsbank in former times repeatedly let pass the opportunity to buy up gold, although it could have been obtained at a comparatively small sacrifice. But there is no point in going back to the past; only it was necessary for the clearing up of the situation that I should once for all throw some light upon this aspect of the case. We shall now be able in any case to harbor the hope—and this hope now rests upon a real principle—that we shall

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utilize every opportunity of increasing our stock of gold while times are quiet. That is the wish that I and a number of others, especially members of the Reichstag, have entertained and do still entertain. And I have already said, Herr Fischel, that I can not bring this condemnation of the ill-timed purchase of gold into accord with your second assertion—that the difficulty lies in the discount policy. Of course, as soon as the gold supply is endangered we must proceed to use the discount screw.

Finally, one more remark, only to register the fact. Herr Fischel says we shall learn from this the lesson that we should not be too anxious when exportations of gold take place. Well, I think that if Herr Fischel had expressed this view ten months ago, and if the Reichsbank had acted upon it, that would not have contributed to the happiness of the land. At a time when we had a gold stock of 470,000,000 marks and were obliged—I believe the banks gave energetic support to the Reichsbank in this matter—to draw 200,000,000 out of the channels of trade into the Reichsbank in order that the Reichsbank might again stand on a somewhat solid foundation—at such a time if anyone had said that we need not be so rigorous about the exportation of gold he would have been making a very dangerous statement, for we were then in such a position that we ought not to have let a single 20-mark piece leave the country unnecessarily.

A VOICE. No; not unnecessarily.

Freiherr VON GAMP-MASSAUNEN. From the remarks of Herr Roland-Lücke I get the impression that he thinks

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that the Reichsbank should hold fast to what have hitherto been its principles; that it should, when necessary, make a distinction between a speculation or credit bill and a bill that has a merchandise transaction behind it; and that in his opinion the Reichsbank is bound to step in only in the latter case. It would give me a great deal of satisfaction to find that this supposition is correct, since I can only express my full and hearty agreement with this view and since I have repeatedly begged the Reichsbank to hold fast to this position under all circumstances.

Doctor WACHLER. Gentlemen, at the beginning of our discussion I permitted myself to insist that in the course of our expert hearings a great many experts attached special importance to our finding out the different causes, or the different culprits, that are responsible for the phenomena of the year 1907; and I said that in my opinion we ought not to rack our brains over the matter, since there was such a multitude of culprits, great and small—the word culprit being used quite without odium attached—that it would really be difficult for us to decide who or what is the chief culprit. In all the discussions the industries and the great banks have always been designated as the two chief culprits. I do not wish to go further now into the question of the necessity of strengthening our stock of gold. The assembly has come to be thoroughly agreed that it is not merely desirable, but imperatively necessary, for the Reichsbank to keep and maintain the gold stock at as high a figure as possible. But I must say this: I agree with Herr Kaempf—and this

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is borne out abundantly by our expert hearings—that without any sound reason a great mistrust of the Reichsbank administration and of the certainty of redemption of notes in gold has been spread abroad in foreign countries—a mistrust that has been called forth or at least confirmed by certain proposals or remarks that have found expression in the Reichstag itself, partly in committees, partly in general assembly.

Freiherr VON GAMP. What proposals?

Doctor WACHLER. Proposals to make a change in Article IX.

Freiherr VON GAMP. What change?

Doctor WACHLER. Increased coinage of small coins and a not unconditional obligation to redeem notes.

Freiherr VON GAMP. Was the not unconditional obligation proposed in the Reichstag?

Doctor WACHLER. Yes; in the case of small notes. I do not think it matters very much to what proportional extent proposals of this nature have been made in the Reichstag itself, to what extent they have been made in committees of Reichstag members, and to what extent they have been represented and advocated outside the Reichstag in the literature of the subject. The fact is incontestable that prominent persons in our own country have raised doubts as to the security of our standard and the certainty of redemption of German bank notes in gold. The importance of this fact has been brought out also by Herr Geheimrat Wagner. The whole coinage system rests essentially upon the confidence that the notes as well as the small coins are to be looked upon as perfectly good.

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We have in the main a system of credit coinage, and the whole coinage system would be shattered if there were not absolute confidence that all notes can certainly be redeemed in what now at least serves us as a standard—that is, in gold. But I will enter no further into the matter.

On the other hand, I must raise the question of what has caused the scarcity of money. Herr von Wangenheim pointed to the industries as the chief party responsible, and supported his statement by referring to Herr Roland-Lücke. I have recently pointed out to him that there was some misunderstanding in the matter, and that Herr Roland-Lücke did not mean that the industries as a whole had been improperly extended, and were consequently responsible for the present state of affairs. I am glad that to-day Herr Roland-Lücke has confirmed what I regarded as self-evident; and I am also glad to find such strong support from Herr Geheimrat Gamp for the opinion that the industries are not to be looked upon as the scapegoat for the difficulties that have for some time beset the money market. Finally, I should like to make the following observation in order to clear up the situation further. It may be that certain industries, for mistakes are made everywhere, went in at too high a speed for the speculative development of their factories—perhaps on the supposition that the extraordinarily favorable situation that existed in 1905 would continue permanently. But there are two points in this connection, gentlemen, that I must urge upon your attention. The industries do not depend upon themselves and their own speculations alone; they must take account in large measure of the conditions among the

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laborers and of the technical inventions that are made. For industry can not stand still, whether it wishes to or not. It must keep step with mechanical inventions if it is to remain profitable. Every manufacturer must be constantly improving his machinery, and even when such improvements involve extensions they are unavoidable if the work is not to fall through altogether. As long as the manufacturers in question still feel the lifeblood in them, they will demand credit (in so far as they have not capital of their own to dispose of) in order to arrive again at such a point of mechanical productive capacity as is necessary to their existence. The other important factor is the labor situation, and it is a factor upon which industry is dependent to a great extent. I am sorry our colleague Singer is not present. I should like to ask him to consider in this connection whether something could not be done by the labor leaders to bring about a better division of the forces of labor. By the difficulties experienced in dealing with the labor situation the industries are forced to render themselves, so far as possible, independent of human force, and this gives rise again to a great number of technical inventions, which are of course expensive at first and often call for more capital, but which the industries must obtain in order not to be too much at the mercy of a chance caprice of the laborers and a sudden lack of mechanical power. We find, then, this peculiar situation: On the one hand, the industries suffering from lack of laborers and endeavoring at great expense to make up for this lack by mechanical arrangements, and, on the other hand, an increase of population by 900,000 inhabit-

ants a year—inhabitants who expect, too, to obtain work and livelihood. Surely with this great increase of population we must have at length a superfluity of laborers. Where, then, do all the laborers keep themselves? In the great cities, where unemployment is rife. If the labor leaders would direct their efforts not toward securing work for the unemployed in the large cities, but toward inducing the unemployed to leave the large cities and go into manufacturing and agricultural regions, which have such urgent need of laborers, then they would be doing a very great service to the community. For if the industries have to try more and more to replace human work by machines, the great increase of the population would soon lead to the situation of there being perhaps a great superabundance of laborers who can no longer find work enough in the interior and who therefore fall as a burden upon the refuges of the large cities. If the industries could be relieved of the necessity of always making new expenditures for the replacement of manual work, that would indeed be a great advantage. At any rate the industries can not be accused of ill-timed and excessive expansion because, when forced to do so by mechanical progress or by lack of workmen, they have undertaken improvements which necessitate greater expenditure of capital.

The second great scapegoat is supposed to be the great banks. I consider myself to be the more justified in expressing an opinion on the matter, as I have no sort of interest in the great banks. I mentioned lately that at one time I was a member of the supervisory council

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of a great bank. I gave up this position long ago. But in this position, and in my former position as manager of a bank, I acquired a pretty rich stock of experiences. I still continue these experiences as a member of the admission office in Berlin, where opportunities are offered to discuss also the admission of foreign loans. Now, I wish to say one thing to begin with. The admission office has not the authority, indeed, to reject foreign loans simply because through them money is diverted to foreign countries; but in considering the prospectuses, the reasons in favor of participating in the floating of the foreign securities in question, and the advantages to the German business world hoped for from them, are often discussed. Just as Geheimrat Riesser expressed his assent to Geheimrat von Gamp's view, that in the taking over of foreign loans the monetary condition prevailing at the time must be taken into account, and also that the country should make a profitable investment and that home industry should be in a position to reap benefits from them, I, too, can but voice my agreement. I have repeatedly, whenever the occasion offered, raised the question whether in the floating of such foreign securities sufficient regard had been paid to the possible advancement of our industry. I wish we could make it a condition in the case of all foreign loans that German industry should secure great benefits through them. But, Freiherr von Gamp, this wish can, unfortunately, not always be fulfilled; neither ought we, indeed, always make such transactions dependent upon the greatest possible share of such loans directly benefiting our industry. Generally,

there is really an indirect advantage in prospect, which is not at once perceptible. I have seen, too, at least in the efforts of our great banks, the desire to operate in this way. I recall to you the Anatolian Railway, the Shantung Railway—I could mention a number of such undertakings—where the great banks made it their business, as far as lay their power, to have the resources which left the country return to it by being expended on the exportation of our industrial products.

I should in addition like to tell Freiherr von Gamp one thing: With all the imperfection of the statistics—and I hold that it is useless to cudgel one's brains further to perfect these statistics, for the outcome will still always be that they will be incomplete—Freiherr von Gamp should at least draw the conclusion that what was done in the way of negotiation of foreign loans in the years 1905, 1906, and 1907 was really a splendid example of the carrying out by the banks of the principles expressed by him. Gentlemen, in the year 1905, out of the entire amount of flotations that took place, 30 per cent consisted of foreign loans; in the year 1906 it was only 10 per cent, and in the year 1907 only 6 per cent. The great banks had, as the statistics show, I think, learned the lesson from the economic development since 1905 which Herr Gamp wishes to have drawn; they placed limitations, in good time, upon their participation in projects which, under the circumstances that prevailed in the year 1907, were comparatively undesirable. That is, after all, the only thing that can be demanded and expected; this educational success that Freiherr von Gamp has wished to

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attain was accomplished by the banks through their own perception.

Now, Herr Geheimrat Wagner pointed out, besides, that in the wave motion which, even in his opinion, can never be got rid of in our economic development, it is the great banks and the bourses—so I understood him, for, afterwards, when one of the gentlemen spoke he interposed, “Yes, but the bourses”—it is the great banks and the bourses which stand in the way of a leveling of the wave motion. In this I can not, to my regret, agree that he is right. One of the chief objections urged against the laws relating to speculations on the Bourse lay in the assertion, and the sound assertion, that the doing away with transactions in futures did not moderate the wave motion, but, on the contrary, immensely intensified it.

But quite aside from that—for we do not wish to indulge in discussions of the laws regulating the Bourse—I should like to call attention to a point which to me seems of the utmost importance. Neither the banks nor the bourses alone cause the fluctuations in the economic field, but the whole world does it.

Mr. FISCHER. Very true.

Doctor WACHLER. Gentlemen, if you would be good enough to attend the Bourse on one of its exciting days—I have that pleasure every Wednesday and Saturday as member of the admission office, and have frequent occasion to come also in contact with the manager of this or that bank in my capacity of referee upon some prospectus or other—and if you were to see the mass of dis-

patches containing commissions for the banks here that are received from the provinces and from other great banking centers, you would indeed become convinced that it is not the Deutsche Bank or the Disconto-Gesellschaft that causes the fluctuations on the Bourse, but the fact that its clientèle extends over the whole world. The Bourse is nothing but a reflection of the aggregate economic life of a country, and it would be a totally false conception for anyone to believe that the great banks or the bourses, as such, can produce the effects which it is here assumed they do.

Pardon me, gentlemen, if, in spite of sharing Freiherr von Gamp's view that such discussions are rather futile, I have entered into them anyhow. I am glad, however, that upon the main point that occupies us here we are, it seems, pretty well agreed, for all these discussions about economic life lead us ever anew to the question: Should any essential change be made in the present bank policy? I am glad that upon this absolute unity seems to prevail; that a reorganization of the present Reichsbank arrangements is not necessary in order to obviate the evils which made themselves felt in the gold market in the year 1907. Evils will, indeed, never be entirely obviated, no matter what the bank management may be. One thing, however, has been evident to me in all our debates, that absolute confidence is felt that the present bank management is pursuing the right policy in regard to foreign bills and discount as well as in regard to the providing of gold, and that is, I think, a very gratifying result of our exhaustive deliberations.

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Mr. SCHINCKEL. Gentlemen, Freiherr von Gamp's remarks, delivered, I know not why, with some excitement, force me again to make a brief reply. The fact is that Freiherr von Gamp made what I consider to be a very dangerous innovation in our debates when he charged one of our colleagues with being of a different opinion—that, at any rate, he had failed up to that time to express an opinion—because he had not contradicted an opposite view. That is what you said, Herr von Gamp. Now, I must say that if we allowed everything that we do not contradict here to pass as our opinion [laughter], our discussions would still have a very long time to run. But that teaches me that it is good, perhaps, after all, to contradict some things that have not yet been controverted, to contradict them briefly in order to obviate the notion that we all concur in those views.

There has been a vast deal of talk about the unlucky Portuguese bonds. I recall to you that there were likewise debentures of a German mortgage bank which was under state supervision, those of the Strelitz Bank, on which the public lost a much larger percentage than on the Portuguese bonds. I hear Herr Geheimrat Wagner constantly mentioning the Argentine bonds. He knows perhaps better than I do of what crime the Argentine bonds were guilty; I can not see why the public should have lost so much money on them. I just wish to mention this in order that it should not slip into the stenographic report uncontradicted.

But I must still revert in a brief remark to the propositions—for they were such—of Count Kanitz. I regret,

of course, that he should again be absent. Herr Stadtrat Kaempf has already quite lightly touched upon the matter. I am astonished that the previous speakers have thus far not expressed their dissent. I almost assume that they regarded it as unnecessary. But that will no longer do, since Freiherr von Gamp has declared that an "expression of opinion is lacking." I wish, therefore, not to allow the expression of opinion to be lacking that the propositions of Count Kanitz are altogether impracticable. People may, of course, entertain different opinions, and I want to allow the view that still advocates the double standard its full weight. I am of another opinion; there are two opposing views. But what we must absolutely avoid is that gentlemen should now resort to such tactics as to say, "While maintaining the gold standard, as a matter of course we shall pay in silver." Gentlemen, these are two concepts which completely exclude each other, and this must not go undisputed in the report of the proceedings of the Inquiry. Count Kanitz says: "In the first place, I do not see why more silver money of inferior value should not be coined per head of the population." Now, I would state that there are members of this commission, and I am to be counted among them, to whom the last coinage itself seemed much too great. ["Very true!"] Herr Geheimrat Wagner, too, regretted that this mass of inferior silver had been coined. Count Kanitz wishes to see still more of this money minted. The stock of silver money that is now accumulated in the Reichsbank may, to be sure, be requisite, in the judgment of the Reichsbank, in order to satisfy the needs of trade. It does

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not improve the looks of the bank statement. I feel convinced that a still larger coinage of silver money will only increase the stock of inferior silver money in the Reichsbank. The present situation will be improved if, as we hope, the stock of gold in the Reichsbank will increase increase to 2,000,000,000 marks. We may then perhaps be able to use as much silver money as is now to be found in the Reichsbank.

Count Kanitz made a proposition, in the second place—this again is an unsettling proposition, which, as, Herr Stadtrat Kaempf very justly pointed out, would necessarily only lead to the greatest doubts abroad in regard to our gold standard—a proposition to raise the legal paying capacity of silver by allowing much larger sums to be legally paid in silver than at present, while, as a matter of course, maintaining the gold standard. I repeat, these are two concepts which mutually exclude each other completely. [“Quite right!”]

It is impossible for me to maintain the gold standard if I want to have the right to pay much larger amounts in silver. That is a double standard and it is, of course, prejudicial to the maintenance of our gold standard. The reference to France is absolutely inappropriate. France does not pretend at all to have a purely gold standard, while I trust it is clear to us all that we wish to maintain a real gold standard and do not wish to have doubts cast upon it again by such indirect means. If Count Kanitz were here I should ask him to read over the stenographic reports. He would find then what further—and much more suspicious—methods of getting round the gold standard were proposed by Doctor Arendt.

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Mr. KAEMPF. Gentlemen, our colleague, Freiherr von Gamp, will not take it amiss if I tell him that he entirely misinterpreted the meaning of my remarks. He accused me of having attacked the Reichstag. I did not utter a syllable in regard to the Reichstag, and, indeed, could not possibly have done so, since the Reichstag did not come to any decision concerning the matter which I was discussing. I did, however, speak of propositions and agitations in the Reichstag and outside of it, proceeding from individual members of that body, and I was perfectly entitled to do so; for, in the first place, the proposition was made in the Reichstag, or in a commission of the Reichstag, to raise the paying capacity of silver—not to 1,000 marks, but to raise it materially—and at the same time the theory was advanced outside of the Reichstag by one of the deputies, that a million marks in bank notes might be presented in 1,000 notes of 1,000 marks each, and that the redemption of each of these bank notes would have to be a separate transaction. This proposition, or this suggestion, has again been brought forward here in the bank inquiry, and I will read you what a member of the Reichstag stated as an expert in this connection: “The largest bank note is the thousand-mark note. The redemption of every bank note is a legal transaction by itself. This is, perhaps, a debatable legal point; I believe, however, that the standpoint is indisputable that if I present a million marks in 1,000-mark notes it is not a single transaction, but that the redemption of every such note is a legal transaction by itself, and that, consequently, if the Reichsbank is authorized to pay in silver up to 1,000 marks it can redeem every one of

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its bank notes in silver." Gentlemen, this view afterwards found expression in the Reichstag; we do not, of course, it was said, wish to impair the gold standard; we only wish to surround it with a silver rampart, a silver wall. I was extremely taken aback by this utterance. I know from history that when it was desired to get rid of an inconvenient person, he was surrounded by a wall; that is, he was put into a state prison, in order that behind those ramparts or behind those walls he might the more readily die a natural or an unnatural death. [Laughter. "Very true."]

That always occurred to me when I heard about this silver wall around the gold standard.

Now, Freiherr von Gamp says that it has never been proposed that Article 9 should be repealed; that the only thing considered was an increase of the paying capacity of silver from 20 to 1,000 marks. The consequences of that, gentlemen, I have read to you.

A VOICE. Only if the Arendt theory is correct.

Mr. KAEMPF. I have said that in and out of the Reichsbank there has been agitation in favor of it, and this agitation has done us infinitely more harm than all the other results of the crisis.

Gentlemen, I felt it my duty to make this clear once more. There is not a word I would retract of what I have said. I did not attack the Reichstag; I did not even attack a single member; I only stated facts, and I did this so delicately that there was even a slight reproach in the words of my colleague, Herr Schinkel—he said I had only lightly touched the matter. I wanted to touch it again less lightly, and thus make the matter clear.

Mr. FISCHER. Gentlemen, I am sorry that the pleasure of finding myself in accord with Herr von Gamp has been very brief. [Laughter.]

I thought I had brought Herr von Gamp around to my views; he thinks he has converted me to his. We should, of course, be glad to draw close to each other. But even if it were true that we had mutually convinced each other, a *chassez-croisez* would at best have taken place, and we should now be just as far apart as ever.

As far as I am concerned, I must confess that Herr von Gamp has not drawn me over to his views. I declare once more, what I think appeared pretty clearly already in my remarks of yesterday and to-day, that I in no way attacked the policy pursued by the German Reichsbank in the last ten years. I will not enter into this any further, for I have given the reasons for it in my previous remarks.

Just as little can I admit that I have changed my opinion on the question of floating foreign securities. I expressed myself emphatically in the hearings of the experts upon this point, to the effect that the placing of foreign securities will always depend upon the tact of those who conduct that business. But there are two things still that I would bring out especially: No one can prophesy; it has never been possible in the past, nor will it be in the future; furthermore, in the views just expressed by Freiherr von Gamp in regard to the floating of foreign securities I have nowise concurred, and I am afraid, moreover, that I never shall concur in them.

Mr. MOMMSEN. It is rather difficult to discuss a subject with Freiherr von Gamp. [Laughter.]

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He complains, for example, that we have not replied to his question as to whether it was not a disadvantage—he reproached the banks for it, indeed—that the people sold their Italian and Austrian paper. He was answered, only Freiherr von Gamp was not present. But I shall, at all events, give him an answer to-day.

Gentlemen, it is well known that the Austrian as well as the Italian papers came to the German people when these papers were sold at an extremely low figure, partly after the forced conversion. It may, indeed, be said that the greater part of these securities—in the case of the Austrians about 70 per cent, in that of the Italians about 75 per cent—was taken up by the German people. If, now, years occur such as we happen to have had since 1900, in which, with us in Germany, the rate of interest steadily rises, and consequently the interest rate on loans rises also, while, in contrast to this, the rate of interest in Austria and Italy steadily falls, because a policy of economy—one justly demanded of us by Herr Roland-Lücke, and now advocated, though somewhat late, as he himself says, by Herr von Gamp, too—a policy of economy was practiced, then it is quite natural that these papers should stand much higher there than ours, and very much higher than the price at which they had been purchased. If the Italian rentes, after their rate of interest had been reduced from 4 to $3\frac{1}{2}$, stood at over 100, while our $3\frac{1}{2}$ per cent government loans stood at 90 in 1906-7, then the public does not need the advice of a bank or of a banker to sell those papers. The public is astute enough by itself to prefer to buy German state issues yielding $3\frac{1}{2}$ per cent at 90, or those

yielding 4 per cent at par, and to sell the cheap Italian papers. That is a quite self-evident consequence; it lies in the nature of the economic situation; and don't keep tilting at the banks all the time, but rather find out something about the economic conditions of the different countries; then you will not always be making assertions which are absolutely false.

But now one thing more. Yesterday I expressed my satisfaction that, judging from the very clear explanations made by Herr von Gamp yesterday we were in absolute accord with him in regard to the method of handling foreign securities at our German exchanges. To-day, gentlemen—well, the matter is quite different. And if I should ever have occasion to discuss the question publicly I should refer to the declaration made by Herr von Gamp yesterday; I should read it to him from the stenographic report and he could then compare his declaration of to-day with it if he chose.

Mr. GONTARD. Only two little words. I should not like an assertion of the director of mines, Herr Wachler, as I understood it just now, to appear uncontradicted in the stenographic reports. I have been for many years a sincere advocate of insurance against unemployment, and I would only mention here that such insurance is not designed to stand in the way of efforts to have workingmen drawn back from manufactures to agriculture. Insurance against unemployment is only meant to supplement the work of employment agencies, and would help to bring about a better adjustment of this very matter.

Freiherr VON CETTO-REICHERTSHAUSEN. Gentlemen, a statement that has been made here compels me to take

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the floor. President Schinkel remarked that money was lost on debentures of the mortgage banks also. That is really a statement which in its generality must not be left uncontradicted. This assertion is all the more serious, since, according to the statistical tables of the issue of securities before us, the issues of debentures or papers of the German mortgage banks come, in point of aggregate value, almost immediately next after the issues of state loans and city and provincial loans. I call attention, in the next place, to the fact that the statistics before us are really incomplete, inasmuch as the issues of the mortgage banks alone are given, while the very considerable sums of the agricultural loan associations (*Landschaften*) and of other institutions of the same kind, amounting to about 3,000,000,000 marks, are not mentioned under the head of debentures; so that the total amount of the debentures issued is, in reality, much greater than appears in the statistics before us. But I would point out that if, as can not be denied, losses have been incurred in debentures, these losses were for the most part not in connection with loans on rural property, but almost entirely with those on city property. The losses on the loans occurred, as is well known, in the great Berlin mortgage banks, which, with the exception of the Preussische Zentralbodenkredit-Aktiengesellschaft, have concerned themselves almost exclusively with loans on urban property.

[Dissent.]

On the other hand, of the loans made by the *Landschaften*, which granted credit to agriculturists alone, it can absolutely not be said that direct losses were incurred

on them, apart from the loss incident to a decline in the market price—a decline which has of late taken place in the case of all securities bearing a low rate of interest. [“Very true!”]

And this is all the more important since it is precisely these debentures that enjoy the advantage of being available for trust funds, and are therefore, as regards security, placed entirely on a level with government loans and with the greater municipal loans.

Gentlemen, these statements lead me, further, to a very brief explanation. As long ago as the last sitting, in the spring, I called attention to the great difference in character between the demands for credit on the part of agriculture and those made on the part of manufacturing industry and trade. I am in a position now to supplement those remarks by saying that the difference consists primarily in the fact that, while industrial credit assumes almost exclusively the shape of working credit, the greater part of agricultural credit is by no means working credit, but rather what has been called “ownership credit.” I will only remind you that the greater part of agricultural credit is obtained for the purpose of acquiring land by purchase and exchange, and in connection with inheritances. This, in its results, is not so much an obtaining of credit as a division of land ownership which is brought about by means of credit. And therein, gentlemen, we have, most decidedly, an important difference between industrial and agricultural credit. It will never occur to the agricultural landowner to obtain credit merely for the purpose of procuring money for himself;

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so-called "finance bills" will not be drawn by agriculturists, and the principle of the old student song, "With more credit than gold, a fine place you can hold," can certainly not be applied to agriculture. [Laughter.]

I should now like to enlarge upon the causes which were chiefly instrumental in producing a change in agricultural credit. This is also bound up with the question of the steady increase of agricultural indebtedness. Well, gentlemen, the matter is pretty simple, precisely on account of the fact that agriculture was forced by modern conditions to pass from primitive working to working with capital. It was thereby also compelled to make use of more credit than formerly. And this, gentlemen, occurs particularly at the time of making a division among heirs. While formerly the patriarchal condition still prevailed that at the division of an inheritance the one who did not enter into possession of the estate remained there and tranquilly gave up his claims to the inheritance to the incumbent for a considerable time, the matter has now assumed such a shape that these inheritance shares must be paid at once in ready money. I would remind you, furthermore, that in the marriages of farmers' daughters to-day there is no question of their marrying farmers in their turn ["Lieutenants!"]. But, on the contrary, the thing is to avoid marrying farmers, and they prefer any calling to that of agriculture, particularly anything that falls under the great head of officials ["The sons do that as well!"], and these demand all their dowry money in cash. Gentlemen, these claims upon agriculture are enormous and make it very

readily explicable how it is that agricultural indebtedness has increased on account of them.

But, gentlemen, as against this there is another point of view which must not be overlooked in connection with mortgage debentures—namely, this, that debentures are always liable to continuous redemption, so that on the one hand the indebtedness and on the other the nominal amount of the debentures issued are thereby constantly diminished, and this aspect of the case can not be ignored either.

Gentlemen, on the whole I am of the opinion that the crisis which we have experienced was chiefly brought about by inordinate demands on the part of industry, on the part of trade by speculative projects, and that this system of plutocracy, which was justly assailed by Herr Geheimrat Wagner, had a great share in plunging us into this crisis. Of that, however, gentlemen, agriculture, at any rate, is not guilty; but who the guilty party is I would leave to your gracious judgment. I would close with the remark that I also share the opinion of those gentlemen who believe that the discount policy of the Reichsbank has been so judicious and wise that we can but express our agreement with that policy. And I believe that the charges brought against the Reichsbank in this respect will upon calm consideration of the facts prove to be absolutely baseless. ["Very good!"] I hold, on the contrary, that the only possible way of limiting excessive demands for credit lay in a wise shaping of the discount policy of the Reichsbank.

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The CHAIRMAN. I give Count Kanitz the floor as the last speaker. I beg to be allowed then to close the debate upon Question III and to admit only personal explanations.

Count KANITZ. I asked permission to speak yesterday when Herr Mommsen asserted that in my remarks of yesterday in opposition to him I had misunderstood him, and that he had not said that the profits of trade were rated too low by the statistical bureau, but that they were rated too low by the public in general.

Mr. MOMMSEN. In our inquiry commission.

Count KANITZ. In the connection in which Herr Mommsen made his statements, I could not help assuming that he meant to criticize the data furnished by the statistical bureau. Since that is not the case, I gladly admit that I misunderstood him. For the rest, I agree with Herr Mommsen in this, that our gain from trade must be reckoned pretty high. I am of the opinion that our trade profits are one of the factors that contribute to our having a favorable balance of payments. If we did not have a favorable balance of payments we should still not have an adverse balance of trade. I mean to say that only a rich country, a country with a favorable balance of payments, like England, for example, can afford to have an adverse balance of trade.

President Kaempf reverted to-day, in consideration, I believe, of the observations I made yesterday, to my wish that the Reichsbank be permitted to discharge its obligations in silver. I think, however, that he drew somewhat too dark a picture of the consequences of such permission.

I do not, of course, wish to enter into the question of bimetallism and the double standard. Although I believe, now as formerly, that the transition to a purely gold standard has been of no advantage to us; and if Bismarck could at that time have foreseen what damage for business in general would be entailed by the depreciation of silver, he would most assuredly not have gone over to a purely gold standard, but would have joined—and it would have been much better—the Latin Monetary Union; would have gone over to the double standard. But if Herr Kaempf thinks that the option of payment in silver would undermine the credit of the Reichsbank, I feel that I must again point to the example of France. The Bank of France redeems its notes in gold or in silver as it prefers and its credit is not shaken by this in the least. You can travel with 1,000-franc notes wherever you wish; they are always accepted at their full value in San Francisco, Tokyo, Hong-kong, anywhere, although everybody knows that the note is not obliged to be redeemed in gold. I, for my part, even see in the optional payment in silver the best safeguard of the gold standard. It is a means of enabling the Reichsbank to maintain its stock of gold unimpaired, and if we provide the Reichsbank with this means we strengthen the gold standard, while it must, in my judgment, come to grief if the gold is drawn out of the Reichsbank.

I think, therefore, that Herr Kaempf's apprehension was not altogether well founded.

Freiherr VON GAMP-MASSAUNEN. I think Herr Mommsen has just been informed through the messenger that I am particularly anxious to be enlightened by him and that

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I have declined to be present at a very important conference to which I have just been invited. For the rest, I would make the personal remark that it is preposterous to imagine that I should have changed my opinion since yesterday. I agreed substantially with the views expressed by Herr Geheimrat Riesser, and that was the case with the other gentlemen also. Hence the resulting unanimity, and if Herr Mommsen abided by the opinions of Herr Geheimrat Reisser unanimity would prevail now as it did before.

Furthermore, I must enter a protest against Herr Kaempf's proceeding in this respect—that if an expert who is likewise a member of the Reichstag advances a theory which is declared untenable by all the experts and all the members of the commission he should to a certain extent saddle this utterance upon the Reichstag, even if not in the same way as though it were a resolution of the Reichstag that he was criticising. Herr Kaempf's whole theory that if article 9 of the monetary laws were so amended that the amount to which silver must be accepted was raised from 20 to 1,000 marks it would lose its value as a safeguard of the gold standard is true only if the theory of Doctor Arendt is correct that every payment, no matter how great in amount, could be divided into separate payments of 1,000 marks each. Since that is not the case, however, the views expressed by Herr Kaempf were not justified by the facts.

The CHAIRMAN. Herr Roland-Lücke has the floor for a personal explanation.

Mr. ROLAND-LÜCKE. Herr von Gamp, in his address of a while ago, in speaking of raising the legal paying

capacity of silver from 20 marks to 1,000 marks, and drawing the conclusion that even if such a measure had been in operation the 200,000,000 in gold would have gone out of the country, and on my assenting to this conclusion, was kind enough to call special attention to my acquiescence. For the sake of appearing correctly in the record, I would say that I assented to the conclusion only in so far, of course, as it stated that the 200,000,000 would surely have left the country; but, for my part, I believe that if a law establishing the increased paying capacity of silver had been in operation it would have been not 200,000,000, but probably much more. Herr von Gamp's remarks may have given the impression that I had characterized the entire measure concerning the extension of the paying capacity of silver as innocuous in itself. I am, as a matter of course, very far removed from such a view.

Freiherr VON GAMP. I am very thankful for that statement.

The CHAIRMAN. Herr Kaempf has the floor for a personal statement.

Mr. KAEMPF. I only wish to state that what I asserted was that the theory of Doctor Arendt, advocated in the Reichstag and out of it, has done us more harm than all the factors of the crisis.

Doctor RIESSER. Within the limits of a personal remark I can only call the attention of Count von Kanitz to the circumstance that, while discussing the policy of a gold premium during his absence, I explained at length the profound difference existing between the situation in France and the financial and economic situation in Germany; so that I can not concur in his conclusion that

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if silver redemption is permitted in France it is possible for us to follow the same policy without misgivings.

The CHAIRMAN. Gentlemen, I should like before adjournment to bring up for settlement still another question which concerns our order of business. It is in connection with Question VI of our question sheet. How this question shall be further treated is of importance for us, particularly in view of the fact that this is already the fourth day that we are debating over the settlement of Question III. Gentlemen, Question VI has brought out exceedingly comprehensive material, which, owing to the great difficulties and many ramifications of the matter, it has not yet been possible to put into shape and condense; and it has given rise to a great many separate demands which may essentially be divided into two groups: First the demand for a greater control of the credit institutions by means of publicity; secondly, the question whether, and how far, in addition to this, legal or administrative measures appear desirable or necessary for the greater security or fluidity of the deposits. In detail, gentlemen, the advocates of these various proposals are very much at variance with each other, and anyone who has read over the discussions can not help concluding that in many ways they are still groping in darkness and uncertainty.

I would bring another point which may be of importance in this question to your knowledge. I received a communication yesterday from the Berlin great banks (the Bank für Handel und Industrie, the Commerz- und Disconto-Bank, the Deutsche Bank, the management of the Disconto-Gesellschaft, the Dresdner Bank, the Na-

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tionalbank für Deutschland, the Mitteldeutscher Creditbank, the A. Schaafhausen'scher Bankverein) which forms a gratifying step in the direction of fulfilling one great portion of the wishes I have referred to, and may furnish the possibility of clearing our own judgment in regard to this question. I feel myself obliged, therefore, to make you confidentially acquainted with it. The communication reads as follows:

“BERLIN, *October 12, 1908.*

“The undersigned most respectfully submit the following to your excellency:

“In view of the wishes which have been expressed in the press and likewise, as we have had occasion to notice, in the deliberations of the bank inquiry commission, for a more frequent publication of a statement of their condition on the part of the joint-stock banks and for a greater uniformity in the preparation of the same, the undersigned have consulted together as to whether and to what extent they could on their part take those wishes into account.

“An agreement was thus reached, in spite of important objections against the publication of it, to the effect that we have mutually obliged ourselves, beginning with January 1, 1909, to publish bimonthly statements, to be made out for every 28th of February, 30th of April, 30th of June, 31st of August, and 31st of October, and to be published, at the latest, upon the last day of the next succeeding month. The preparation of a statement for December 31 shall, in view of the balance sheet which is to be drawn up for and published upon that day, be omitted.

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“The statements are to be prepared according to a form to be agreed upon by us, the consultations regarding which are not as yet concluded, and which we shall hand in as soon as possible. It is understood that whatever changes, due to the development of business conditions, may subsequently be made in the form shall involve no diminution of the simplicity and clearness of arrangement intended to be attained.

“In order to secure the continuation of the agreement, we have decided to draw it up among ourselves in our capacity as members of the clearing house, so that it should be just as binding upon us as a by-law of the clearing house. We attach hereto the condition that only such joint-stock companies and corporations with limited liability shall henceforth be admitted to membership in the clearing house as shall have joined in this agreement. In accordance with this we most respectfully propose the following:

““The Reichsbank is respectfully requested to ask the members of the clearing house to incorporate the following provision in the rules and regulations of the clearing house:

““Joint-stock companies and corporations with limited liability can henceforth be admitted to membership of the clearing house only if they give their assent, in writing, to the agreement of October 12, 1908, hereunto annexed, in accordance with which they bind themselves to prepare a statement, drawn up in the form agreed upon, on February 28, April 30, June 30, August 31, and October

31, of each year, and to publish the same, at the latest, upon the last day of the next succeeding month.'

“‘Your excellency’s most respectful

“‘Bank für Handel und Industrie, Com-
merz- und Disconto-Bank, Deutsche Bank,
Direction der Disconto-Gesellschaft, Dresd-
ner Bank, Nationalbank für Deutschland,
Mitteldeutsche Creditbank, A. Schaafhausen-
’scher Bankverein.

“‘To his excellency, the president of the Reichsbank
Direktorium, Herr R. Havenstein.’”

Gentlemen, I frankly avow that I rejoice at this praise-
worthy and loyal act on the part of the banks; I feel con-
vinced that it will, that it must, very soon find imita-
tors, and I trust, also, that the banks, in their readiness
to meet the wishes that have been expressed, will go as
far as is in any way compatible with their own interests
and the greatly increased work which will be entailed by
drawing up six balance sheets instead of one.

But, gentlemen, the action of the banks enters, besides,
as an important new element into the judgment which
we are called upon to pass upon the whole case. For,
presupposing a decisive judgment, and also a further
determination as to whether—and if so, to what extent—
it is regarded as necessary to have legal and administra-
tive regulations in connection with the question under
consideration, we obtain a more exact insight—and this
was emphasized also by many in the subcommission—

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into the accounts of the credit institutions than it was possible to do before. This basis for our debates and our conclusions is only now furnished—furnished, at any rate in a much clearer and more definite shape than it was before—by the action of the banks. The question suggests itself, therefore—and I should like to have your opinion upon it—whether you deem it better, in the interest of the object we have in view, to pass a decisive judgment at this time or only after the proposals of the banks shall have been carried out in practice; this will be the case in a few months and it might then serve as a clear and practical starting point for your conclusions. If the latter is your opinion, we should confine ourselves to those questions which are of importance to our bank law. These would accordingly be Questions IV and V.

Gentlemen, I should like to add another inquiry here. This whole question of deposits is exceedingly complicated; the discussions upon it have up to the present been most fragmentary, split into a thousand details, rendering a mastery of the subject extremely difficult. A summary such as we have succeeded in obtaining as to the other questions—of the last ones only at the very last—it has hitherto been impossible to get; and what with the matter being so copious and so split up, it seems almost doubtful whether the making of such a summary will be possible, at least to the extent to which it was possible in the case of the previous questions; and it may be that on that account you will prefer to abandon the task. Should you, however, come to the conclusion that, precisely on account of the difficulties and the

ramification of the subject, such a summary, even if it should turn out to be more extensive than those hitherto prepared, is desirable, and that the attempt should be made, I believe I can promise that we shall make the attempt.

To make the information complete, I would communicate another matter still. Prompted by the suggestions made in our former deliberations, we have endeavored to procure information in regard to the balance sheets, up to date, of the credit institutions, beyond the statements which have appeared annually in the *Deutscher Ökonomist* and in the *Frankfurter Zeitung*. We addressed a request to all the branch offices of the Reichsbank, that, in so far as they could procure the data from the joint-stock companies, companies with limited liability, the larger cooperative banks, etc., in their district, they send in these data. This matter has been received, but, owing to its great extent, it is not yet in perfect shape or ready for print. These statistics, also, we would, of course, print for you; I do not believe, however, that it would be possible to accomplish this in the next few days.

I would now request the gentlemen to express themselves on the subject.

Doctor STRÖLL. We have just been made acquainted with a very important, gratifying, and interesting piece of news, which will, I believe, in manifold ways pour oil upon the waves of excitement; and I feel that this matter is of the utmost consequence for our future development. Who it is that has accomplished this great

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feat of uniting all the banks, I do not know; but, at all events, the originator deserves our warmest thanks. It is my opinion that, in consideration of this news, the debates of the commission concerning Question VI should be postponed for a few months; for we must wait and see to what extent the course of the Berlin banks will act as a model for the rest of Germany. At present it is only Berlin that is affected. We must wait, however, to find out what the other clearing houses will do, and what pressure will be exerted by the clearing houses upon the banks centering in them. We must furthermore wait to see what the form which the Berlin banks intend to publish looks like. The effect upon South Germany, upon the widest circles in short, must be awaited. The president has brought other important considerations to bear, besides, which might induce us to postpone Question VI, namely, the statistics to be prepared, which can probably not be completed in a few days—will take weeks, in fact. I believe therefore that we shall be fully justified in postponing the discussion of this Question VI for some months, by which time we shall have gained a much clearer insight into the matter. Permit me to make one more remark. I personally look upon the question of deposits in an entirely objective manner; it is one of perfect indifference to me. I have noticed, however, in connection with Question VI, so much subjective feeling, so many personal elements, I may perhaps say so much animosity even—I do not, of course, refer to any particular individual—that I think an inter-

mission in the discussion of this particular question would have a very favorable effect, not only objectively and materially, but psychologically also. [Quite right!]

Since, therefore, there are such excellent reasons in favor of the president's opinion—for he did not make a proposition—that the consideration of Question VI might properly be postponed; since so many reasons speak for it, I should think that the majority of the commission would declare themselves in favor of postponing this question to a future day.

But, gentlemen, this is necessary for still another reason. I have not had a great deal of business experience; I do not know this of my own knowledge, but I have been informed by others that it would be exceedingly difficult to keep a commission like ours in session beyond a week. The special duty of the Imperial Government for the time being is, indeed, to concern itself about the actual questions before the legislative body. In short, there are a number of reasons which support and justify my proposition.

Freiherr VON GAMP MASSAUNEN. This last reason, I, for my part, can not admit. I do not feel that we must under all circumstances finish on Saturday, but hold that we can possibly sit longer. For the rest, however, I must agree entirely with the views expressed by Herr Director Ströll. I think that we are not at all in a position to enter into a consideration of Question VI, if for no other reason than that we are not in possession of the material, namely, the abstract prepared by Herr Fastenau. I be-

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lieve that, unfortunately, we can not dispense with this abstract, and would therefore address a request to the management of the Reichsbank to make it accessible to us. I think we ought to put off a further consideration at least until the appearance of one monthly statement, so that we may see how the thing is carried out in practice. I am convinced, moreover, that it will be possible to further abridge and condense Herr Fastenau's abstract, since some of the particulars need not appear in the report.

Mr. MOMMSEN. Gentlemen, just one word. Reference has been made here to the influence of the greater clearing houses. I would call attention to the very important fact that among the banks that have affixed their signature, there are several that have their main office not in Berlin, but outside of it; namely, the Commerz- und Disconto Bank in Hamburg, the A. Schaafhausen'sche Bankverein in Cologne, the Mitteldeutsche Creditbank in Frankfurt, and the Dresdner Bank in Dresden, the Darmstädter Bank, which must also be added, in Darmstadt—five banks, accordingly. And I believe, therefore, that an influence will naturally be exercised over the provinces through the example which these banks set the other banks.

The CHAIRMAN. Gentlemen, I hear no dissenting voice. Will the gentlemen who are opposed to the postponement of Question VI please raise their hands? I may declare it to be the unanimous wish of the commission that Question VI shall not be considered at present.

[Recess.]

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The CHAIRMAN. Gentlemen, we come now to question IV:

IV.—Is it desirable to endeavor to bring about an increase of the cash holdings of the Reichsbank out of the channels of domestic trade?

A.—By conferring upon the notes of the Reichsbank the quality of legal tender?

Would such a measure be to the interest of general business?

B.—By an increased issue of 50-mark and 20-mark Reichsbank notes?

C.—By diminishing the need of circulating media through extension and intensification of the deposit-and-transfer (*giro*) check and clearing business?

What measures are to be taken to this end? (“Reichs-clearing?”)

In this connection, do the following seem effective and desirable?

1. A raising of the minimum for noninterest-bearing credit balances in the deposit business of the Reichsbank.
2. The acceptance of interest-bearing deposits by the Reichsbank.
3. The purchase of checks by the Reichsbank.

Gentlemen, judging by the wishes you expressed regarding Question III, I think it will meet with your approval here also if, so far as possible, we treat Question IV as a whole and allow each speaker to take up the separate points in succession.

[Assent.]

I would, on my part, beg you, since the questions may turn out to have a practical significance for our legislative proposal, to lay special weight in your discussions upon Question A, as to making the Reichsbank notes legal tender, and upon Question B, which, though it does not presuppose a law, does assume an arrangement with the Reichstag; and, finally, upon C 3, the purchase of checks by the Reichsbank; this would have to be authorized

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by law, since the Reichsbank can at present only buy checks upon those countries in which the check stands legally on a par with bills.

Permit me, gentlemen, before we enter into the discussion, to make a few introductory remarks upon one of these points—and that is the making the notes a legal tender, in regard to which, should it ever be enacted, the Bundesrat will soon be called upon to decide. And pardon me if, in view of the importance of this point, I should for once transgress to some extent the personal reserve which I must here impose upon myself. I am convinced, gentlemen, that the investing of the bank notes with the quality of a legal tender is out of the question unless we assume first of all, as a matter of course, that our gold standard is to be absolutely maintained. The *rocher de bronze* of the gold standard is the redemption of notes in gold; no tampering, under any circumstances, can be permitted here. Consequently I regard the theory of Doctor Arendt, even from the standpoint of bank policy, if the bank is not itself to destroy confidence in its good faith, as beyond the pale of discussion, besides being firmly convinced that it is absolutely untenable as a matter of law—the theory, namely, that the redemption of 1,000,000 marks in 1,000-mark notes or 20-mark notes could be broken up into 1,000 separate transactions relative to 1,000-mark notes or even into 50,000 relative to 20-mark notes. But, gentlemen, assuming the absolute maintenance of the gold standard, the redemption of the notes in gold, and the discarding, therefore, of the idea of forced circulation, I would call your attention, for the purpose of a full consid-

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eration of the question, to several aspects of it which the experts whom we have hitherto listened to have either not discussed at all or have only touched on the surface. In this body, whose counsel is of particular importance to the preliminary deliberations of the Bundesrat concerning the supplementary bank law, I am anxious that this question should be elucidated on every side and that its serious aspects should by no means be left out of account.

At the hearing of the experts last spring they treated this question almost exclusively from the standpoint of an enlargement of the Reichsbank's stock of gold and with regard to times of peaceful and normal economic development, and scarcely considered that the legal-tender quality of the bank notes may also perhaps be of importance in protecting the store of gold in possession of the bank, particularly in politically or economically critical periods. And even where one or another did touch upon such critical times, he fixed his attention mostly upon a war, and then only upon the period immediately following its outbreak, pointing out that it was a question at the utmost of only a few critical days, which could be weathered, and that making the notes legal tender and possibly the forced circulation of them might then become a necessity, but that it would be time to enact those measures then, and that they could be legally passed in a few days by the Reichstag and the Bundesrat—for the power of issuing an emergency decree is not provided for by the constitution of the Empire. But the possibility that we may have grave political crises when legal measures can not at once be enacted, and that a war does not necessarily

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break out overnight, but may be impending for weeks and months, producing constantly increasing uneasiness in the business world, hardly one of the gentlemen seemed to have thought about.

But, gentlemen, it is not necessary in this connection to think of war at all; we may go through protracted political or economic hard times in peace also. Are we really so absolutely sure that with us an economic crisis, a failure of confidence, an intense demand for money, a run upon savings or other banks, may not, under a conjuncture of untoward circumstances, occur, even though, thanks to the elasticity of our central bank of issue, hardly to the same extent as in the United States?

The question whether we do not need the same defensive apparatus with which all our great neighbors, and particularly England and France, have long since provided themselves may at any rate be worthy of earnest consideration, even if we leave an actual panic that may seize upon the people at large and the business community entirely out of account. And it is very obvious that at such times every individual strives to put himself into a strong position financially, to have his resources mobile and available; that every bank, every public fund, every disbursing officer, savings bank, cooperative institution, and whatever else they may be called, will, or at least may, make a strong effort to secure for themselves the means of meeting all possible demands for payment, and therefore for greater amounts than are needed in normal times. It may likewise be assumed as certain that efforts to secure those means to pay, on the part of private persons as well

as of the banks and other payment institutions, will be directed toward procuring as much as possible of that kind of money regarding which the possessor is sure that he can use it in payment under all circumstances—that is, money that is legal tender. Up to the present, however, gentlemen, it is only gold that plays this part.

That in such periods of long-continued, steadily aggravated crises an acute feeling of insecurity and unrest may pervade the business community in general, precisely because the creditor demands of his debtor the only unconditional kind of money—that is, gold—is conceivable; that this endeavor, manifested in larger or smaller strata of the population, these necessary efforts of the banks, disbursing offices, savings banks, etc., to procure this sole absolutely valid and disposable form of money, gold, may react strongly, and, under certain conditions, to a dangerous extent, upon the Reichsbank and its stock of gold, is at least possible and perhaps probable; and this would happen particularly at a time when it must strive to guard its stock of gold with the utmost care, while as matters now stand it has no means of really protecting it.

Now, it seems plain that the investing of our bank notes with the legal-tender quality would remove the chief motive which, under present conditions, impels great numbers of private individuals and notably banks and disbursing offices, to provide themselves specifically with gold and that in great quantities; and the number of people who will then apply to the bank to have notes redeemed will not, I believe, under any circumstances be a dangerous one, so long, of course, as the credit of the bank is maintained.

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Gentlemen, it may be doubted—and I concede this at once—whether these possibilities will become realities, and how far the uneasiness and the imperiling of business and the imperiling of our gold will extend in such crises. But, gentlemen, in forming your decision you will have to put this question to yourselves also: whether the bodies that are responsible for the utmost possible security of business—and for the present, you, too, are among them—should not consider, judge, and prepare the measures required for such grave emergencies from the standpoint of the pessimist and of the man who goes, it may be, to the furthest limits of caution.

Gentlemen, it will have to be considered, too, whether it can be assumed as certain that we can not experience such crises in the next ten years, and whether the enactment of the supplementary bank law is beyond doubt the most appropriate means of attaining this security for our financial and economic dealings. For, gentlemen, that any special act, any special law would spread this uneasiness in tenfold measure both within the country and abroad, can not be a subject of doubt.

And there is still another aspect, gentlemen, which likewise has not been touched upon. Last year we were not very far from a one-third covering of our notes. The Reichsbank dispelled the danger at that time by drawing in gold, making great sacrifices to do so, but it had not at its disposal any means of keeping the danger off unconditionally. I hope and wish that we may be preserved from the recurrence of such crises. But is it wholly inconceivable that such a crisis, and even a graver one, may again come upon Germany? Gentlemen, at such times if our notes were legal tender, it might prove a powerful

aid to the Reichsbank. Just think of it, gentlemen; the Ministers of Finance of the Empire and of the Federated States would only have to express their readiness—and they would surely do that at once—at the request of the Reichsbank to direct the state treasuries and public depositories to pass over their stock of gold for a few days to the Reichsbank. If this were done a few days before a day of heavy payments, all danger that the Reichsbank might, even at the time of heaviest drain, fall below the one-third covering would be at once removed.

Finally, gentlemen, even in times when economic conditions are perfectly normal, the banks and other disbursing places would not need to keep as large a stock of gold on hand as they are now obliged to do on account of gold being the only legal tender; and this, gentlemen, might also have the effect of directly and permanently strengthening the Reichsbank's stock of gold.

Now, gentlemen, in the deliberations of the experts a great many objections were raised; objections, in the first place, based upon Doctor Arendt's theories. I think I may leave those aside. Much more weighty and grave were the objections expressed in a very distinguished quarter, that such a measure might produce a very serious and undesirable effect in foreign countries as regards their judgment of our entire economic situation and their reception and valuation of bills drawn on Germany. It was, however, at once pointed out by more than one person that an objection of this character could apply only to the question of the timeliness of such a measure

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in view of the grave attacks which had so recently been made abroad upon our entire economic organization. Gentlemen, in this connection I would beg you to consider whether, even if this objection should have been accorded full weight if we had proposed such a measure at the close of 1907, or in January or February, 1908, the same weight is to be attached to it now after the interval of a year and with the possibility that it may be months before the law is taken up in the Reichstag. Gentlemen, at that time a host of suspicions were spread about by foreign newspapers relating to our general condition. It was declared that the entire economic development of Germany was facing a great collapse; it was prophesied that our great credit institutions would not be able to maintain their solvency; it was predicted that the Reichsbank would no longer be in a position to protect the gold standard, to maintain the one-third covering of the notes; it was asserted that the Empire itself was in such confusion and disorder that it did not have sufficient means at its disposal even for its domestic and current needs, and that it could not raise them, owing to the lack of the spirit of sacrifice on the part of the Reichstag and of the people; the feeling was sought to be aroused that if the Empire was unable to meet even the needs of a time of peace, it would be in no condition at all ever to provide the means required for carrying on a war.

Gentlemen, we have in the meanwhile grown a year older, and what is actually left of these libels to-day? This year has taught, here and abroad, that our economic development, though it has again struck ebb tide, is, on the whole,

undoubtedly sound; that the banks have not announced their insolvency—this year it is to be hoped, will show that the balance sheets of our great banks will present a different appearance from that of last year; the Reichsbank is stronger by half a billion; and the criticism that it can no longer maintain its one-third covering and the gold standard will, at all events, lose its whole force if the Reichsbank decides, either at the same time or before, to give to the public separate accounts of its holdings of gold and silver, and show that it does not, and need not, fear criticism. [Hearty applause.]

The conditions in our country assume a different aspect, too, through the circumstance that the Imperial Government is about to submit a great scheme of taxation, and asks the Reichstag to place the Empire in a position of independence. I earnestly and confidently hope that the Reichstag will not be deaf to this appeal, and that the Empire will, speaking broadly, next year stand financially on its own feet.

Gentlemen, all these are elements which can not even by a malicious spirit be looked upon as signs of weakness and unsoundness, but as displaying, on the contrary, the marks of vigor and health, of determination and ability to act; and this may be the very thing to strengthen confidence in the Reichsbank notes, in the maintenance of our monetary standard, and in the soundness and security of bills drawn on Germany. We are, after all, doing only what England and France did long ago. We have every inducement to win back the respect for German conditions which has now and then been impaired abroad through

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malicious libels, but perhaps the best way to do this is to show determination, and to show that we are not afraid of criticism.

Gentlemen, I request you to consider also—particularly those gentlemen who raised the objections half a year ago, and they were men of great prominence—whether those objections would not in their eyes, too, perhaps, lose some of their weight if the bill were to be brought in, not within the next fortnight, but only after the lapse of some months, and if, in that time, our German economic conditions continue their healthy development, the Reichsbank remains strong, the German banks make a different showing to the public from that of the last hard year, the Bundesrat has submitted its great financial reform measure, and the enactment of this measure by the Reichstag may be looked for.

Gentlemen, I do not for a moment fail to recognize the seriousness and weight of the objections that have been urged against this measure. You are familiar with them also, gentlemen, and I refrain, therefore, from presenting them once more in detail. I have only wished to bring before this body, upon whose advice the Bundesrat lays great weight—particularly as it is on the eve of deciding whether it should incorporate the legal-tender proposition in the laws or not—considerations which have hardly been referred to, and which may be of some consequence in relation to the measure, and to ask you to take them into account in arriving at a decision. I present them to your judgment, and would be very grateful if that judgment were to remain a thoroughly independent one. We

shall on our side, too, endeavor to learn from your arguments, and I can assure you that the dissenting voices also—the opinions of those who are opposed to this measure, and the reasons that they adduce—will now be doubly weighty with us.

Doctor RIESSER. It is my opinion, in the first place, that the views expressed by the experts, which, I frankly admit, appealed to me at once very strongly and which were mostly adverse, may chiefly be traced to the fact that the question was brought up in connection with that of the desirability of endeavoring to increase the Reichsbank's stock of gold. For that this question is to be answered in the negative; that making the notes legal tender would not have the effect of strengthening the Reichsbank's stock of gold—at least in general, there being some few exceptions which were brought out in the discussion; this, in my judgment, is indisputable. Since the experts were mostly influenced by their judgment of the question whether making the notes legal tender can really effect an increase of the gold supply of the Reichsbank, drawn from the channels of domestic trade, their answers were necessarily mostly negative.

We should do well, gentlemen, to put the question in this shape: Whether, quite independently of its possible effect of increasing the Reichsbank's stock of gold, the conferring of the legal-tender quality upon the notes of the Reichsbank—these are the only ones in question—should be recommended on general grounds. After I had put the question to myself in this way I decided—contrary to my former opinion—in favor of an affirmative answer.

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Gentlemen, the following three objections have, in substance, been raised. I shall try to treat the subjects as briefly and succinctly as possible: (1) Bad impression abroad; (2) bad impression at home; and (3) decline in check and deposit business wherever the use of bank notes is increased.

I turn, first, to the impression abroad. It is asserted that it would create a very bad impression in foreign countries, and, what appears far more grave and is to be more seriously considered, that perhaps our entire foreign trade and, possibly, even the hard-won position of German exchange abroad may be jeopardized. I believe, gentlemen, that this apprehension originated—his excellency, our chairman, has already referred to this—under the impression created by the very adverse foreign criticism indulged in at one time regarding the condition of our Reichsbank and of our private banks; and I would bring up a point for consideration which goes beyond even what has just been indicated by our chairman—namely, that it will assuredly be a long time before the notes will be made legal tender by law, and that by that time conditions will presumably have changed. I would ask you to consider whether the date when this measure shall go into effect could not be fixed by an imperial order. In that case, gentlemen, it would be possible to carry this measure into effect, not necessarily just at the time of its passage in the Reichstag, should that time coincide with a critical or even worse juncture of affairs, but at some later day. I merely suggest this idea, however, for consideration, without offering a resolution to that effect. At all

events, I feel convinced that if this measure should go into effect at a time when all grounds for the attacks that have been made are removed by the favorable position of the Reichsbank and, as I trust will be the case, the favorable condition of our banks, the question of a bad impression abroad could not come up at all. And I would not omit to point out that it is a sign of the strength of our great banks and will, I believe, be so regarded abroad also, that they have already at this time decided to publish their trial balances every two months, beginning with February, 1909. Gentlemen, one who has much to conceal and feels himself weak would surely not voluntarily determine upon such a measure, particularly at such a moment. [Very true!]

I come now to No. 2; to the impression at home, regarding which it was asserted—and here again I was impressed by the argument—that there was a time once when the gold clause was expressly inserted in legal documents, mortgage deeds, and long-term contracts, and that this time would return if the measure under discussion became a law. I, for my part, believe—but it is of course difficult to prophesy—that the chief impression produced will be simply this: that the public will wonder that this measure was not enacted long ago, and that the express insertion of the gold clause will not be resorted to, because it is impossible that the doubts in regard to our gold standard which at the time in question gave rise to it should be revived on this occasion. All this, of course, under certain assumptions: First, that in sections 18 and 44 of article 4 of the bank

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act, redemption in gold (instead of as now "in current German money") is made obligatory upon the Reichsbank and the private banks; and that, either in the law itself or in introducing or discussing it, every scheme for making the redemption of our bank notes in gold illusory by indirect means—by means, for example, of the division theory advocated by one of the experts—is rejected in very explicit terms, as was done by his excellency to-day; and, secondly, that—I say this to satisfy the desire of the president that all possible points of view be presented—it should be considered whether on the occasion of enacting the legal-tender measure a modification might not be made in the present restrictions according to which the branch offices of the Reichsbank are obliged to redeem in gold only in so far as "their holdings of cash and their money requirements allow." (Sec. 18 of the bank act.)

I say a modification of the restrictions. The question must be considered—I am not blind to the objections against it, notably the danger of returning to former conditions in our monetary affairs and weakening the control of the gold situation by the management of the Reichsbank in Berlin—whether it might not be required of the branch offices that upon demand they redeem notes in gold within the time required for the transfer of gold from the central to the branch establishments, "under ordinary conditions." (Sec. 147, Abs. 2, B. G. B.) I would, however, state distinctly that I simply suggest this for consideration, but do so on account of the apprehension expressed by Herr Schinkel that otherwise great

difficulties might be encountered in places other than Berlin should the legal-tender measure be enacted and no provision at the same time be made that it shall be easier than it has hitherto been to get the Reichsbank notes redeemed in gold at the branch establishments.

I now come to 3; to the opinion advanced, if I am not mistaken, by Professor Lotz, an expert—at any rate, by a very competent expert—that wherever the circulation of bank notes is increased it is bound to be accompanied by a diminution in check and deposit business. According to the experiences within my knowledge, and as far as I can judge from them, this objection does not hold. The only thing that has been established is the obverse phenomenon, that an increase in check and deposit business causes a diminution of bank-note circulation, and we have examples of this, notably from England.

But, aside from this, what is involved in the issue of bank notes of small denominations is chiefly only a different subdivision of the total; the increase of the aggregate—I believe his excellency, our chairman, gave the figure as 86,000,000—would be only about 8,000,000; since, for example, 50-mark bank notes take the place of 100-mark bank notes and imperial treasury notes already in existence, and 20-mark bank notes may also be substituted for smaller imperial treasury notes. I would therefore agree to the enactment of the legal-tender measure under the assumptions I have mentioned; and the question might be considered whether the time when this measure shall go into effect should not be fixed by an imperial order, as has been done in a number of cases; furthermore, under the additional assumption that, as in

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England, it must be expressly stated in the law with us, too, that the legal-tender quality—which, for the rest, must hold good as long as the gold standard lasts—shall not obtain in the case of any payments which the Reichsbank itself has to make in connection with its deposit business, its obligation to redeem bank notes, etc. In considering this measure, then, I have reached the conclusion that the enactment of the legal-tender measure—which, for that matter, obtains already to-day in the case of payments to the Reichsbank, because, according to the bank act, the Reichsbank must accept its own bank notes as valid payment to itself—is nothing more than a legal admission, the declaration of a position which public confidence has actually long since granted the bank notes [very true!] without this implying the necessity of demonstrating that particular cases had occurred which compelled us to resort to this measure at this moment.

Aside from all this, in the enactment of the legal-tender measure we may recognize—and here I am simply following the path which the important statements of the president of the Reichsbank have marked out—not only a peaceful measure, but one that is required for, nay, indispensable to, our financial mobility. [Quite right!]

One need not think of war at all in this connection; but should war come, one of two things will happen. Either (as I think would be necessary) a forced circulation will at once be declared and the obligation of the Reichsbank to redeem its notes in gold will accordingly be suspended; and it is difficult to conceive that it should not at the same time be declared that the creditor must accept the notes of the Reichsbank in payment and that the debtor may give them as valid discharge of his obligations; this

is, indeed, the essence of the legal-tender idea as distinguished from forced circulation. Or the forced circulation will not be declared, or not be declared at once, and then the legal-tender expedient will still have to be resorted to in order to make our bank notes, and consequently our monetary standard, at least somewhat less open to the foreign attacks which may be expected, for it is not impossible that great quantities of bank notes would then suddenly be thrown out of use in Germany because of the insistence upon gold for all manner of payments to be made in foreign countries, a situation which their manifold relations with us would easily enable them to bring about.

But there is still another consideration—and this is the last objection, with which I will close—that if the bank notes are declared legal tender, the imperial treasury notes would have to be declared so likewise. [Quite right!]

I would not attach great practical importance to this question in itself, because for the present the entire amount of the imperial treasury notes is limited to 120,000,000. I believe, however, that in this question the imperial treasury notes—which I hope will disappear in general, and particularly as a cover for bank notes, as soon as possible—can not be regarded as being on the face of the matter on a level with the bank notes. The main difference in my estimation is this: The imperial treasury notes are a national paper currency for which the State is unconditionally responsible, but which is secured by the taxable resources of the entire German nation—that is, secured indirectly, and not directly by any special

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covering; their circulation, therefore, rests upon the payment credit of our Empire. The Reichsbank notes, on the contrary, are sight drafts of an institution which is under state supervision and which discharges a variety of public functions; their circulation does not rest upon the payment credit, but upon the redemption credit, of the issuer. I hold, therefore, that one need not draw the conclusion that making the Reichsbank notes legal tender necessarily involves doing the same for the imperial treasury notes. I should not draw that inference, but in any case I do not regard this objection as a particularly weighty one, especially as the imperial treasury notes amount only to the small, or at least not very considerable, sum of 120,000,000 marks.

Doctor WAGNER. Gentlemen, I must, in the first place, thank his excellency, the president, for having expressed himself upon the whole question, apparently a subordinate one, of investing the bank notes with the legal tender quality. It is a highly important question of financial policy and general policy; we should not deceive ourselves on that point. I shall permit myself to enter into some arguments from this point of view.

Gentlemen, if we look back into recent history we perceive that in grave political crises, particularly war crises or the like, every country of Europe, great or small, has had to resort to a paper-money régime; that is, they issued paper money with forced circulation and suspension of specie payments. The only great historical example in which, up to the present, this has not been done in the case of a tremendous crisis, was offered by Prussia-

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Germany, even in the trying year 1866, and later, in the war years 1870-71; we managed without such a measure, although France, financially so strong and with such great credit, was obliged to decree a forced circulation for its bank notes after the first defeats, the August battles. Gentlemen, this offers food for reflection, and we must remember, too, that we had a silver standard then and confront a much more difficult problem now with the gold standard; silver does not flow away as easily as gold.

Gentlemen, I should like to draw a distinction, in this whole question, between two points. The president has in his various statements just represented this entire measure concerning legal currency or the legal-tender quality as one of necessary precaution, intended to insure us against all contingencies. That is one side. I hold that the measure in this respect commends itself at once.

It must be admitted, however, that there is another side to be considered: Would it be possible for us, in a great and trying world struggle in the future, with foes on different sides, to avoid the experience which all the countries and States about us have passed through, namely, a heavy increase of bank notes, become irredeemable—that is, of real paper money? We hope at all events that it would. We must all the more fortify the Reichsbank for all contingencies. Even then, to be sure, there will still be difficulties. France in 1870 must at first have thought that it could manage without this forced circulation, and after a few days it was unable to do so, although the Bank of France had a stock of specie of about 1,300,000,000 francs—a stock such as the

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world had up to that time never seen. To-day it is still greater, 3,250,000,000 francs in gold alone, and nearly a billion more in silver.

But we are, in any case, confronted by another question: Is our monetary system so organized that we shall not be obliged, simply through conditions brought about by it, to resort to a real forced circulation—that is, to a circulation involving the irredeemableness of bank notes? I can not help entertaining doubts as to whether the cover provisions in our currency and banking regulations are adequate. And another question has to be taken into consideration here, Herr Riesser; namely, that the 120,000,000 in imperial treasury notes must be added to the bank notes. For the present the Reichsbank alone is responsible for both. But besides that, we have 1,200,000,000 in silver money which, upon the owner's demand are, in accordance with our laws, also redeemable in gold. For neither item, the silver money nor the imperial treasury notes, have we a special cash-redemption fund in gold. This is a perilous matter, and in a crisis might easily put us into a serious position.

And now as to the question of investing the Reichsbank notes with the legal-tender quality at this time. A number of reasons can, to be sure, be urged against it, but the reasons in favor of it really outweigh them. At present we must picture to ourselves this situation: I am not compelled, as an official, for example, to accept Reichsbank notes in payment of my salary; I would indeed as a rule do so, and prefer it perhaps to other money, but I am not obliged to take them. And no creditor is obliged to do it. This may really lead to sharp

practice against the debtor. It is stated, for instance, in our Berlin rent contracts, which are often veritable man-traps, that the tenant must pay promptly, otherwise the entire contract is invalid. Now, the money is brought to the landlord in Reichsbank notes, and he says: "Give me gold." But the tenant can not do it—the Reichsbank is closed in the afternoon. It is indeed possible that the court may decide against the man and say that his conduct is contrary to good morals. Even in peaceful times, the legal-tender quality would have the merit of providing a desirable preventive of such chicanery.

But then in the dark days, in time of war or of economic stress! There is one point on which I can not agree with my colleague, Herr Riesser. He holds that such a measure should be incorporated in the law, but that it should be provided that it shall be put into force only upon an imperial order. What effect would this have? Let us say that the law goes into force next year. Suddenly, in the summer, affairs take a critical turn and an imperial order is issued. The effect would be very similar to that which we apprehend at the approach of a war. At home, and more particularly abroad, people would say: now comes the real forced circulation. These are apprehensions which do not allow me to agree with Herr Riesser on this point. But otherwise there is really no objection to investing the always redeemable Reichsbank notes with the legal-tender quality. Take the case of England. England itself had forced circulation from 1797 to 1818, when she got rid of it; and in the year 1833–34, after the unfavorable experiences following the crisis of 1824–25,

she returned to the legal-tender plan, though with the qualifications which have been spoken of. Since that time the notes of the Bank of England have retained their legal-tender attribute, which of course does not apply to payments for which the Bank itself is responsible. For the rest, the legal-tender provision, if I am not mistaken, applies only to England, not to Scotland or Ireland. In this case there is not even a historical connection between the former forced circulation and the mere legal-tender provision, for a period of sixteen to eighteen years intervened between them; the legal-tender measure was adopted independently.

Then we find very similar arrangements in countries which adopted the new system directly after the régime of paper money and forced circulation. France, in the first place; the legal-tender plan did not exist there either, formerly; but when, after the war of 1870, which involved the issuance of a forced circulation, specie payments were resumed, she retained that feature. In Austria-Hungary the same thing obtains, and likewise in Italy; I mention only the chief countries. In short, we could point to the fact that it is the almost universal practice of the leading nations of Europe, as regards their central banks and the notes issued by these. I would, therefore, be in favor, not of permitting this measure to be put into force by imperial order, but of establishing it by law, precisely at the most peaceful time, such as we may look for now.

Then, again, I believe that we can not by any means ignore this question: What attitude shall we adopt toward the imperial treasury notes? At present they are not invested with the legal-tender quality either. For their redemption the Reichsbank is substantially responsible. Can we later on, when the Reichsbank notes shall

have been made legal tender, omit to do the same for the imperial treasury notes? I believe consistency would demand the extension of the measure to them also. Besides, in the earlier history of German paper money, this has often occurred. The paper money of many different States of Germany—Hesse, if I remember right, was of the number—whether redeemable or not, was legal tender. In Holland, if I am not mistaken, the national paper money still continues to be legal tender; for a long time there were 10,000,000 Dutch gulden of it. But, naturally, if we make the imperial treasury notes legal tender, the question presents itself with renewed force: Must we not finally provide for a better covering of the imperial treasury notes?

Now, I know very well that in our present straits, as regards money and credit, we can not think of contracting new loans for that, too; but I should, at any rate, like to make a proposition in order that it may appear in the minutes, even if the matter can not be settled overnight. What kind of examples are offered by the history of Prussia? When, in the year 1856, it was contemplated, partly on account of the competition of the small banks of issue of the Middle States, to grant the Prussian Bank of that time the right of an unlimited issue of notes, it was considered advisable to reduce the existing Prussian national paper money, which amounted in round numbers to 30,700,000 thalers, by about one-half, there remained only 15,000,000. It is a familiar fact that this was accomplished by means of a loan, which the Prussian Bank had to pay interest upon and discharge; it is the same loan with which the Reichsbank is still burdened, and which will, I believe, be discharged in 1925. I should

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think, therefore, that we should have resorted to the same policy now, particularly in connection with the issue of small bank notes; the Reichsbank would, for instance, have been empowered to issue 50-mark notes, but in consideration of this it would have pledged itself to call in all the imperial treasury notes, somewhat as was done in 1856; that could have been accomplished without too heavy sacrifices. But so long as the imperial treasury notes remain in existence, we must, for the security of the Reichsbank, at least say this: The Bank holds a large part of those bills, occasionally a half or more—this is mere ballast for the Bank; it serves nominally, but not really, as a cover—it is not even silver, but pure credit money—and there ought to be a gold cover for it. An effort should, in my judgment, therefore be made to get the Imperial Government to provide sooner or later a certain quantity of gold as cover for the imperial treasury notes as long as it issues them, which gold would likewise be at the disposal of the Reichsbank.

The Juliusturm has been referred to a number of times because the sums, 120,000,000, happen to coincide. The two things have nothing to do with each other. The treasure in the Juliusturm is applied to entirely different uses. It is certainly not intended as a cover for the imperial treasury notes. But the present condition, that the Reichsbank may and must use these bills also as covering for its notes and other obligations—this pure credit paper, which is not specially covered—is untenable.

I would, furthermore, express my dissent from the view of my colleague, Herr Riesser, the theory of Lorenz Stein,

of Vienna—the theory of a “tax fund” on which paper money rests. That is a very nebulous affair. The money the Empire or a State receives in the way of taxes to-day they must give out in expenditures to-morrow. The tax receipts do not supply a sufficient basis; this must be provided for by special means. I thus reach the conclusion that it is proper to make our imperial treasury notes legal tender, but that measures must also be taken to secure a sufficient gold cover for them.

And still another question is to be considered: In connection with the legal-tender question, what is to be done about the various denominations of the notes? Should the legal-tender measure apply to all alike? Gentlemen, bad results may follow in this matter also. I take the example which I have often adduced in private life, and which I think permissible to mention here. A man doing business in a small way in the country receives a draft of 120 marks for a consignment of farm products. He is given a 100-mark note and the rest in small change. As it is now, he can refuse the 100-mark note because he can not get rid of it or change it. With a legal-tender act in force he could not do this. At all events, this is a point which must receive some consideration. We must not by any means allow a man of that kind to be put to the necessity of buying something in a shop in order to get his note changed, or have small money-changers adding to their profits by the charge which they make for doing it.

And I shall touch upon another matter connected with this. In addition to the small imperial treasury notes, we have now small bank notes, the smallest being as low as 20

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marks. Is it quite certain, then, that you will be bringing gold into the Reichsbank by means of them? Is it not possible that the effect will be that more gold will flow, not into the Reichsbank, but out of the country, because more 20-mark notes will be in circulation and less gold will be used in business dealings? I have always entertained certain misgivings in regard to the 20-mark notes. If France has no notes of lower denomination than 50 francs, it would have been the right thing to stick to 50-mark notes and thus secure a greater reserve in the shape of gold circulation.

These are the points which are most closely connected with this question.

The other points also touch the main question, but not so closely. I would therefore reserve the privilege of discussing them later on, especially the points indicated under C, etc. They present a number of particular features for consideration.

If, for the rest, the opponents of the legal-tender idea in its true sense raise the objection that it would lead to the multiplication of bank notes, what do we see in England? The Bank of England has, relatively, the smallest amount of bank notes—in spite of the fact that the legal-tender plan has been followed for a long time—and has increased its notes in far smaller degree than the other central banks where this measure either does not prevail or has only recently been put into practice. The quantity of bank notes depends upon other factors, especially upon the development of the deposit system and the use of checks. We need have no fear on that score therefore

in making the notes legal tender; the example of England disposes of such apprehensions.

Allow me, in conclusion, to return to the question of forced circulation. To avoid it, even in critical times, must be our steady endeavor. Let us hope that we shall succeed in this in the future also; but necessity knows no law, and here I would appeal particularly to the gentlemen who are actively engaged in business affairs. I speak from my own personal experience, having attended one of the first congresses of political economy, in Hanover, in the year 1864, now forty-four years ago, when the German radical free-trade, theoretical party, and the representatives of the great Prussian industrial interests back of it, discussed in the congress the question of real paper money, with forced circulation. I had then been living in Austria for quite a long time and had seen the terrible consequences of the depreciation of paper money, and could agree with the stand taken against such money in that congress; but a view prevailed in those circles of the absolute abominableness of paper money. They went so far that they were carried away into saying such things as that the country had better go to ruin than resort to paper money. I hope that the practical, as well as the theoretical, advocates of free trade are now so far instructed that they no longer entertain such ideas. Paper money is a grave evil; but a greater evil is to let the country go to ruin, for the interest of the state takes precedence, in any case, of private economic interests, and at the same time is the highest economic interest of the people; that must never be forgotten. [Very true!]

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I declare myself, therefore, in favor of the approval of the legal tender proposition.

Mr. SCHINCKEL. I, too, am among those who have brought up objections to the legal-tender project, especially as regards the time of its going into effect. It is naturally not easy for me, therefore, to revert to those objections after the remarks of the chairman and after the addresses which two members of our commission, very able judges, have delivered. I regard it, nevertheless, as my duty, in order once more to examine the two sides, which this, like all other questions, has, to point out again the objections which in my opinion present themselves against making such a legal change in the currency at the present time.

It can surely not be denied that such a measure will not be charitably interpreted abroad, and I must, therefore, say that this objection should not be passed over lightly—the hard times are, indeed, not so far behind us.

But how does the matter stand with us here at home? I do not for a moment fail to recognize that the position in which we find ourselves to-day is a very uncomfortable one—that, namely, the bank note has not the legal-tender quality, while in the eyes of the public it is really credited with that quality; at any rate, the people have practically never really quite found out that they need not accept the bank notes. This is a defect which I, too, should be glad to do my part to correct. On the other hand, the landlords who can demand their rent in gold, and the difficulties in paying mortgages, are always pointed to. I must say that in my experience, extending over a great many years, I have never met with cases where a person,

through sheer perversity, would insist upon demanding gold. Would it make such a tremendous difference, then, if the bank notes were made legal tender? A person who, for some reason or other, wants to have gold by all means will demand it in future also.

·A VOICE. Well, then!

Mr. SCHINCKEL. Thus the inconvenience caused by drawing gold from the Reichsbank under existing conditions will not be obviated by the measure.

Now, as to the case of financial crises or readiness for war. Well, gentlemen, we must not deceive ourselves on this point, either. Making the notes legal tender to-day and emphasizing anew their redeemableness by the Reichsbank, will not remove the chief difficulty. For it will have no effect upon the question whether we shall be able to maintain redemption in case of war. If mistrust is aroused, whether it be in consequence of a crisis or in consequence of a great war, everybody will be anxious to provide himself with gold, and if he must accept the bank note because it is legal tender, he will take it to the Reichsbank and get gold for it there.

But, as I have already remarked, the question has undoubtedly its two sides, and I myself believe now that, dismissing the apprehensions regarding the possible critical attitude of the outside world concerning the matter, the scales will turn in favor of recommending the enactment of the legal-tender measure right now, on the occasion of the renewal of the bank act. If this is desired, however, a correlative, which we can not get around, must, I am firmly convinced, be furthermore demanded. It will have

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to be expressly stated in the law, as was done in England, that the Reichsbank is, of course, not absolved from paying its own obligations in gold, and that the Reichsbank note is redeemable in gold at all times. But, in addition to this, it must be provided that the note shall not be redeemable in Berlin alone. [Quite right!] It is this very point, singular as it may sound, which will be most insisted on and exploited against us abroad, although I am fully aware that the English bank note, for example, is redeemable only in London. The conditions in England and Germany can, in this respect, absolutely not be compared. In England there is substantially only one banking center, and that is London; all money transactions are concentrated in London. That is not the case in Germany. In Germany we have other banking centers besides Berlin, and if the absolute obligation of the Reichsbank to redeem its notes in gold—which, as our honored chairman has also said, is to be specially emphasized once more—is really to have a background, then the redeemability must not have reference to Berlin only, or else we should actually have a paper standard outside of Berlin, throughout our whole broad German Empire.

[Cries of dissent and “Very true.”]

If the banks in Hamburg, Frankfort, and Munich were obliged to say: “I am sorry, we have no gold,” then we should actually have redemption in Berlin alone. I know that in practice this, again, could not happen often enough to be of much significance, but it is an error which we must not commit. I can not really see why in this connection the Reichsbank should not go so far as to

declare that it is ready to redeem Reichsbank notes at its branch establishments as far as their stock of cash permits, and beyond this to send the gold, at its own expense, in the shortest possible time, to the office at which it was demanded. Otherwise the condition will arise that a bill upon Hamburg will actually have a discount against it as compared with one drawn on Berlin, since it would not be redeemable in gold if the Reichsbank should not declare itself ready to assume this slight burden, very slight because it has the franking privilege. I would warn you most earnestly against a failure to recommend this change. [Interruption.]

Well, for my part, let it be only the chief offices; although that would not be right either, for every branch office can easily enough have on hand as much gold as will be demanded of it. It is a fact that the public begins to demand gold only when it is withheld from it. But we must have the certainty, as well for the outside world as for ourselves, that the Reichsbank note is redeemable at all the offices. I am aware that this may involve inconveniences. It may really occur that more gold is demanded in Hamburg than the Reichsbank happens to have in its vaults there. Very well; it can telegraph to Berlin, and the gold is in Hamburg the following day. But if we wish to make the Reichsbank notes legal tender, they absolutely must be redeemable in gold until—which Heaven forbid—times so critical shall arise that the Reichsbank would have to be legally absolved from this obligation.

I wish also to express my opposition to the idea of the imperial order. In my opinion, a resort to this expedient

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would betray a certain weakness. If we reach the conclusion that this measure ought to be adopted at the pending renewal of the Reichsbank act, then it should of course, in my judgment, go into effect at once.

As regards the imperial treasury notes, I think that it would be a good thing if, as soon as possible, they were reduced in quantity and, indeed, disappeared altogether. To provide a special cover for them I consider hardly practicable; they could just as well be called in. I am one of those who can not see under what plea the Empire contracts debts at all. I should not regard it as a misfortune if the imperial treasury notes were gradually to disappear, all the more if they are not legal tender. What connection the matter has with free trade, I was not quite able to understand. I think we may very well leave that out.

Freiherr VON GAMP-MASSAUNEË. After the gratifying exhibition of unanimity on the part of the first three speakers, I do not abandon the hope that we shall reach a perfect agreement on this very important subject. I would, therefore, beg the honored gentleman who has just spoken to relegate his somewhat local objections to the background, and to judge this question from the general standpoint, which is incomparably more important. No change will take place in the favorable conditions now enjoyed by Hamburg; and that Hamburg, under some circumstances, labors under a certain disadvantage because arbitrage is rendered somewhat difficult or transport expenses are incurred, may be regrettable from the Hamburg point of view; but we have got along with it for

thirty-eight years, and the tremendous development that Hamburg has shown in spite of it may be regarded as demonstrating that she has been able to bear this slight burden without being harmed. I would, furthermore, call attention to the fact that the last speaker in his desires goes far beyond what exists in England. In England the notes are redeemable only in London and this is at any rate not really the appropriate occasion—though I can understand the last speaker's wish—to insist positively, as he says, on doing away with this disparity. You may do away with it; I have nothing against it. But it is my opinion that this is not the appropriate occasion to exert pressure upon the decisions of the Reichsbank.

I am glad—I understood Herr Riesser to this effect—that his suggestion regarding the imperial order—[various exclamations]—if you yourself do not consider this method expedient, I shall not burden the discussion with this question. I was under the impression, however, that Herr Riesser held that it would be an expedient measure. If he is not of that opinion, I shall pass over the matter.

I do not share the views of those gentlemen who hold that the proposal to make the notes legal tender is not free from objection.

Both Herr Riesser and Herr Schinckel remarked that what was contemplated was really to establish a condition which is already accepted in actual business as existing. I can tell you that when I happened to discuss this question with some very well-informed men they were greatly astonished and said, “Why, is not such the case? Is paper

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money not yet legal tender?" Everybody thought that paper money was legal tender. If even the slightest doubts were to arise as to paper money being legal tender, Herr Schinckel could in twenty-four or forty-eight hours witness numerous instances of chicanery on the part of creditors. Now, Herr Schinckel has said that the proposed measure does not really change the matter much. Upon which some one properly called out to him, "Well, then!" If there is practically little change, you can not make so much of the question. The Bank of France and the Bank of England treat notes as legal tender, and should Germany then lag behind? I am surprised, particularly in the case of gentlemen who set so much store by our standard, that they do not give energetic support to the Reichsbank on this question. For, gentlemen, there is, after all, nothing that can depreciate our bank notes in the eyes of the public as much as if we should say that we do not consider it right to invest our bank notes with the legal-tender quality, a thing that is done by the Bank of France and the Bank of England.

Gentlemen, the chairman has raised the whole discussion to the high level which belongs to it. We are dealing in fact with an important question, with a view to possible crises and runs. We saw a few months ago—it was in Königsberg, I believe—what can happen in entirely peaceful times. All of a sudden doubts spring up as to the solvency of an institution, and in a few hours 30,000,000 or 40,000,000 are demanded back. ["Savings banks!"] This may happen in the case of savings banks likewise. But just see, gentlemen, how altogether

different it would be if the bank notes were legal tender instead of people having a right to demand gold. Where is the gold to come from in Königsberg or any other place when a run has been started? Bank notes can be had or they can be sent in twelve hours or in the course of a night from Berlin to Königsberg, but how are you going to do this with twenty or thirty millions of gold? It is evident, gentlemen, that just in times of peace and tranquillity an insufficiency of legal tender may bring about a state of uneasiness and lead to the most serious difficulties.

I am glad to see, gentlemen, that the position of both Herr Schinckel and Herr Riesser is somewhat different from that which they appeared to hold formerly. All that Herr Schinckel says is that he considers the present moment inexpedient, and I am convinced that our president and Geheimrat Wagner are right in declaring that we can not afford to let this opportunity go by [exclamations of "Quite true"], and that if after getting through now with the bank bill we should a year or two later undertake to legislate in regard to that question, we might of course be easily led to make too much of the matter. [Exclamations of "Quite true."]

All parties in the Reichstag are represented here, and I believe we shall all be agreed in the Reichstag that the question should, as a matter of course, receive an affirmative answer. [Exclamations of "Quite true."] I think we might as well admit that it was a mistake in the first place that the bank notes were not declared legal tender, and now we intend to make this mistake good. [Laughter and exclamations of "Quite true."]

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I believe that if the matter is taken hold of in this way when the actual conditions appear naturally to call for such action, the question will from the start be deprived of that significance which it might have in the eyes of the outside world by reason of the prevailing ignorance respecting our legislation. [Exclamations of "Very good."] I therefore propose that the theories of Doctor Arendt be not discussed in this connection. [Interruption.] I do not believe that this view finds favor in the Reichstag, and I am convinced that too much importance has been attached to the matter.

It is, moreover, my opinion, gentlemen, that the imperial treasury notes should by all means be included, if for no other reason, out of respect for the Imperial Government. I can not help feeling that a sense of decency demands it. We can not possibly declare that the bank notes are legal tender and the imperial treasury notes are not. I do not by any means share the view, however, gentlemen, that these 120,000,000 of treasury notes are in any way an incubus to business or that they ought to be looked upon as anything prejudicial on the score of sound financial policy. [Interruption.] This is not the trouble, however. It is owing to the action of the Reichsbank, which was anxious to bring its small notes into circulation. It kept back the treasury notes in order to keep its small notes out. It is a mistake for the treasury notes to be reckoned part of the bank's reserve. If this be remedied, and I can not see how we can do otherwise, the treasury notes will acquire and maintain the same place in our circulation which they formerly had.

Our worthy colleague, Herr Wagner, mentioned an imaginary case, one that can, of course, occur, the case of an individual who being paid the sum of 120 marks and being obliged to take a 100-mark treasury note and the rest in small change, does not know what to do with the 100-mark treasury note. I believe you will say, gentlemen, that as a rule it happens very seldom that a person doesn't know what to do with a 100-mark treasury note. [Laughter.] It happens much oftener that one doesn't know what to do without a 100-mark treasury note. [Renewed laughter.] All one has to do is to go to the post-office and have it changed.

A VOICE. They are not bound to change it.

Freiherr VON GAMP-MASSAUNEN. I know that; but no postmaster is going to say: "I am not obliged to change this 100-mark bill, and therefore I must decline to do so." A complaint would immediately mend the matter. At any rate instructions might be given to postmasters in general that they are to change bank notes. Such regulations, however, should not be embodied in the legal enactments; they should be in the form of ordinary instructions. There is such a thing already as instructions issued to the imperial post-offices to the effect that they must be ready to accept in payment the coupons of imperial bonds, as well as the bonds of the individual States. This certainly goes still further. I trust, and I am convinced, that the central authorities are accommodating and intelligent enough to satisfy such business needs by means of proper instructions to the officials.

I beg to express the hope—great additional weight would thereby be imparted to our discussions—that Herr Schinckel will consent to dismiss his temporary scruples so that the

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commission of inquiry might reach a unanimous vote. This would in every way produce a most favorable effect and I am extremely anxious for such a result. ["Bravo!"]

Mr. FISCHER. The considerations, gentlemen, that ought to settle this question have been so clearly set forth by the chairman in his introductory address that I think there is little more to say. His statements can not fail to have fully convinced even those who at the outset did not share the view that the imparting of the quality of legal tender was desirable. As for myself, I have been strengthened in my previous conviction.

The question as to whether bank notes ought to be invested with the quality of legal tender has long been a matter of controversy. I believe that on the occasion of the enactment of the original bank act it was discussed in a theoretical fashion by a number of persons. I remember that Bamberger, for one, was at the outset decidedly in favor of it, and it was only by reason of the ill-conceived views that were expressed on every side—they sounded at least like misconceptions to me—that he finally abandoned the pursuit of his idea. And, if I remember right, the question was pretty thoroughly discussed in France in the inquiry instituted about the middle of the sixties. As it was found impossible to come to any agreement, and as there was not sufficient experience upon which to base conclusions, the matter was dropped.

When the French Government, in August, 1870, decreed the legal-tender quality of the notes and at the same time their forced circulation, it was not the first time that recourse was had to such a measure. The same thing

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took place in 1848, but in 1850 forced circulation and the legal-tender quality of notes were both abolished. I believe that if the members of the commission of 1866 had been a little more far-seeing, the outcome of their discussions would have been that it was desirable to make the bank notes legal tender. I think, moreover, that if this had been done at the time, France might perhaps not have been obliged in 1870 to resort to forced currency. It seems to me that it would have sufficed to resort to the measure—which step was, as a matter of fact, taken at the time—of issuing notes of small denominations. I have come to this conclusion because during the whole continuance of the war with Germany, in spite of its disastrous issue, there was actually at no time a depreciation of the paper money worth mentioning. Indeed, whatever there was amounted to so little that it had a merely theoretical rather than a practical significance, so that one could hardly say that there was any. We can say this much at least, that if the French bank notes had all along possessed the quality of legal tender, the people would have kept on taking them and the resort to forced circulation might have been put off. As an illustration of the beneficial results that are likely to ensue if the public is used to paper currency that is a legal tender, I may cite a very important case, belonging to the most recent history, one that is presented by a country—Russia—in which the gold standard was still something new and which at the most critical period was not compelled to resort to forced currency, although it was under the disadvantage of not possessing such a well-organized

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system of credit and such financial relations with foreign countries as would have enabled it to avail itself more largely of external resources. This emergency did not arise, as I recollect, even when it was found impracticable for a considerable time to undertake any financial operations in the way of trying to secure means abroad. And I recollect that this was the case even when the most serious domestic troubles had set in and the outside world was beginning to lose faith in the financial stability of the Empire and when this lack of confidence was evinced in such a decided manner in the country itself that domestic capital to the amount of 500,000,000 rubles is stated to have gone abroad, a figure which, I believe, is based on good authority.

In view of all this, I regard this legal-tender question as very important for us, because, in the event of future crises, if we have enacted the legal-tender provision now, the question of forced currency may not have to come up at all. Forced currency, with a premium on gold, is always essentially the result of flooding the country with paper money, and the question of a resort to it presents itself when it is necessary to raise sums of money by means of the issue of paper currency which it would be impossible to raise through any other kind of credit operations. That Germany would be compelled to have recourse to such a step in case of a serious crisis I consider extremely doubtful. At all events, it ought not to be regarded as something that is inevitable. I consider it, on the contrary, likely that the vast amount of capital in Germany, together with the large reserves at our command in the

form of foreign securities, will enable us to procure the needed credit and money in a way that will not necessarily have to consist in the issue of irredeemable paper money.

But apart from this aspect, I must say that I regard the present situation as a deplorable one. [Exclamations of "Quite true."] If we continue to make use of our bank notes in our everyday payments without the existence of any legal basis for our action, there is some danger involved [exclamations of "Quite true"], and I am willing to go so far as to affirm that this danger was unquestionably present at the close of the last year—not that there was any danger for the Reichsbank, but there was for the individual debtor. I have to remind you that in this very hall one of the experts, a banker, related in cold blood, as though it were a matter of course, that when one of his customers came to cash a check and said he wanted the money in gold, his answer was: "I can get you the gold, but you know there will be a charge." It is rather remarkable that such deviations from the strict observance of obligations provoked little comment either at home or abroad. The outside world was at that moment engaged in heaping such a mass of unwarranted criticism upon us that it forgot what just criticism is. But how does the matter stand to-day?

The structure of our credit system is constantly growing and we are intent on developing the system of payment by check on as large a scale as possible. And what is the result? That you go on converting more and more of the money that is required in actual business into credit bal-

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ances. The further you proceed on this course, the more the situation becomes one in which debts increase and in which a bank that has a large number of depositors whose balances are subject to check has a constantly increasing number of creditors and an ever-growing total of balances for which it is liable. And what has it got on the other side? It has demands upon a great number of other people, but the sums involved have, after all, first to come in if the bank is to keep on meeting its obligations. Is it desirable then that our great and constantly growing credit organizations should in a measure stand between as guarantors of the redeemability of the bank notes? For they are compelled to pay in gold quite independently of whether their debtors, who have the same obligation, are ready to do likewise. The latter would be rather astonished if, when one of their notes became due, they were to run up against such an announcement as "I do not consider this note paid, because it has been paid in bank notes." Every single creditor has unquestionably at present the legal right to refuse bank notes as an instrument of payment. Is it for the public good if the law of custom does not coincide with actual law?

There is another thing that I will ask you to consider. The relation existing between creditor and debtor is something very peculiar; it is not determined altogether by positive principles of law. This very flaw in our legal system, which consists in the fact that our business usages are not in accord with the actual law, in my opinion hurts the small manufacturer or business man more than the big one, for every owner of a workshop, whenever a customer happens to settle a bill, is but too glad to get his

money. If he were to say, "I can not accept this bank note, as it is not legal tender, and I do not take anything but gold," the answer he would get would be, "Very well; you can wait." Then his creditor comes to him and presents a promissory note for payment. Of course, the big creditor has no occasion to look out for anything else than his own absolute rights under the law. He has no particular reason for trying to keep on the right side of his customer. You will say this is all theory, that we have fared very well till now with our custom of taking bank notes, and that it will go on in the same way in future. I am willing to admit this. I am quite ready to believe that we shall continue to get along as before. But I think it is a mistake, when there is a gap somewhere, to leave it open, and to close the hole after the child has tumbled into the well, for if one fine day we should suddenly find ourselves in the midst of a grave economic crisis you may rest assured, if the crisis is one that particularly affects our own country, inducing a collapse of credit and a financial panic, that it will run the same course that every crisis has run that is known to have occurred in a country especially developed on the industrial side. We may take lessons in this matter from the experience of England.

How does the effect of such a state of crisis principally manifest itself? In a general lack of confidence. But this lack of confidence is manifested not only with respect to one's neighbor, but more with respect to oneself. Everyone who has obligations asks himself with dread, "Shall I be able to meet my obligations, so that I may remain an honest man?" This concerns him much more

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deeply than the question of making or losing money. His first concern is his good name and his credit. What happens then is pretty much the same with every crisis. Everybody hoards up money, circulating medium of one kind or another, not only for his immediate needs, but also in order to be able to meet his future liabilities. Hence arises the necessity of having for a time an amount of currency far in excess of what is required in the ordinary course of trade and by the actual volume of business transactions.

This is why we have so often observed that as soon as there was a sufficient amount of money in circulation confidence was restored and the crisis was over. But a circulating medium in the sense of currency with which a person can under all circumstances meet his obligations without having to reckon, so to say, on the acquiescence of the creditor in the mode of payment does not at the present time exist in Germany outside of the gold coins. Is it not likely, if we had a serious crisis to-day, that the most prudently managed banks, perhaps the great banks themselves, which possibly would be willing to run some risk for the sake of the public good, would instruct their cashiers to this effect: "You must do your best, above all, to get hold of gold, for there are, and there will be, people coming to the bank who absolutely insist on getting gold and nothing else, and we dare not refuse them"? Should we not see numbers of prudent people trying to get gold at the bank? What would happen? Just at the time when it is most important and imperative that the bank should be strong, when it is beset with extraordinary

demands for credit, its ability to discount bills and promissory notes and to make loans on collateral is diminished, for with every 20-mark piece that it has in its vaults a much larger amount of bank notes must be kept back. I believe that if an economic crisis is really due to fear, a bank has it largely in its power to dispel this fear by discounting in the most liberal manner and thereby rapidly bringing so much money into circulation that the uneasiness and apprehension are bound to disappear. Such a rapid and great increase in the amount of money in circulation can take place only through an increased issue of bank notes, and on this account the notes ought to be raised to the level of unquestioned legal instruments of payment. Whosoever has present or future liabilities to meet will not need, even at a time of general uneasiness, to have anything beyond bank notes, provided they are legal tender; but only in that case.

This is clearly evinced by the experience which the English have had in their financial crises whenever the bank act has been suspended. As soon as the Bank of England was empowered to issue notes at its pleasure the crisis was over. I consider this matter of such importance that I believe it would be simply deplorable if we were to miss this opportunity, which I regard as a most opportune one, of establishing a normal status. I admit that we may be exposing ourselves to the criticism of the outside world. I feel confident, however, that the Bundesrat, in introducing the necessary bill, will set forth the reasons in such a way as to take away the edge in advance from any criticism that the measure might evoke. Criticism based on mis-

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understanding or malice need not trouble us. We should, after all, not be acting differently from other countries. The English and French bank notes are legal tender.

In regard to this question we see a curious change in the attitude of France. It is evident from the decree of 1850 that the idea at that time was that forced circulation implied the legal-tender quality, but that without a forced currency the legal-tender quality might as well not abide in the bank notes. From the position taken in 1878 we see, however, what a change had taken place in the notions with respect to this matter, for we find that forced circulation was abolished, while nothing of the sort was done with the legal-tender quality. We are also aware that in England the legal-tender quality was introduced in 1833 without forced circulation, as Geheimrat Wagner has very properly pointed out. The legal-tender quality of bank notes redeemable at pleasure in gold is something very different from forced circulation.

I should like to say a word still with reference to the suggestion of Geheimrat Riesser. I do not see any use of a provision in the bank laws to the effect that the bank notes shall be invested only later on with the quality of legal tender by a decree of the Emperor, my opinion being based on grounds which, I believe, have not been dwelt upon hitherto. We all know that a bank note nowadays is accepted by everyone; and that by virtue of custom, if not by legislative enactment, it is considered a legal tender in business. I think it would be a mischievous thing for us to create an intermediate stage by making a definite statement to everybody in the declaration setting forth the purposes of the bill that these notes

in reality need not be accepted and then not making them a legal tender until later on. This would create confusion among the public and habituate people to the consciousness of the possession of a certain privilege, which, as a matter of fact, they do not exercise. It is only the more likely, then, that there would be a sense of coercion when the new principle was afterwards formally adopted. I am consequently of opinion that this thing should be introduced in the new bank laws as a definitive measure.

As far as the imperial treasury notes are concerned, I must confess that I do not care for them any more than many of the speakers who have preceded me. But if we sought to get rid of them now, but were at the same time compelled by the issue of a loan to exert a pressure upon the loan market, I am not prepared to say which of the two evils would be the greater. I should still be in favor, however, of making only the bank notes and not the treasury notes a legal tender. For while, in making the bank notes a legal tender, we can clearly and distinctly declare our purpose to be to place our monetary standard on the same basis as that on which the absolutely unassailed British standard rests, copying the English law of 1833 word for word, we can not make use of a like claim in behalf of the treasury notes. In the case of the bank notes we can declare that they are a legal tender as long as they are redeemed in gold by the Reichsbank, but that this quality does not reside in them in the case of money that is paid out over the counters of the Reichsbank, stating this in precisely the same way as the law of 1833 decrees in regard to the

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Bank of England. For the redemption of the bank notes there is in the Reichsbank a legally prescribed metallic reserve, while with the treasury notes this is not the case. What we should have would be something between bank notes that are a legal tender and simple paper currency. I should be in favor of having the treasury notes retain the status which they have at present. They possess theoretically an inferior intrinsic value, being similar in this respect to our fractional metallic currency. I do not exactly mean to say by this that we ought to limit the amount that has to be accepted to 20 marks. The mere fact, however, that these treasury notes are issued in denominations of 5 and 10 marks implies that there is indeed no necessity for everybody to take a 5-mark treasury note in place of 5 marks in silver or a 10-mark treasury note in place of 10 marks in silver. I do not believe in putting these notes in a preferred position in this respect. The status of the treasury notes rests on their exchangeability, their redeemability, and I believe that this ought to be sufficient to keep them in circulation. Were we, simultaneously with the enactment of the bank law, to invest the treasury notes, representing in reality an uncovered debt of the Imperial Government, with the quality of legal tender, we should create a false impression that it was our purpose to invest every kind of paper currency with a capacity which it has hitherto not possessed. I am not disposed to be too much afraid of foreign criticism, but we ought to avoid offering legitimate grounds for criticism.

I will ask now to be allowed to say a few words in advocacy of another measure. We are about to put into

circulation a quantity of 20-mark Reichsbank notes. Now, the law provides that subsidiary coin up to 20 marks has to be accepted in payment, so that the Reichsbank has the right to redeem a 20-mark note in subsidiary coin. The subsidiary coin can, of course, be presented at the exchange counter and exchanged again for gold. The mere circumstance, however, of a double exchange renders the 20-mark note less desirable. I do not wish it to appear that in the proposition which I am about to make I am influenced by the phantom of the theories of Doctor Arendt. I believe, however, that we ought from a tactical standpoint to do our best to make it clear in the eyes of the outside world, as well as of our own public, at the moment when the new bank act is promulgated, that the maintenance of the gold standard will be absolutely assured. I therefore urge the adoption of a provision to the effect that, while everyone has the legal right to make payment in subsidiary coin up to 20 marks, this is not to apply to the Reichsbank in the redemption of its 20-mark notes, it being expressly declared that 20-mark notes are to be redeemed in gold, just as in England the smallest bank note is redeemable in gold.

I think it would be desirable, gentlemen—I regret to be obliged to come back to the subject of this morning's debate, which was declared closed—that the Reichsbank should at the time when we introduce the new regulations have a large stock of foreign bills so that we may be enabled to prevent an excessive rate of exchange. Then let the world indulge in a really unwarranted mistrust and let it forego for a while our good German bills and

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interest, and then we might possibly pay it back a couple of hundred millions, in which case it would be well if this could be done without any rise in the rate of exchange. Such protection would suppress all false interpretation more effectually than the most spun out theoretical exposition. When we have made bank notes a legal tender, gentlemen, then let us give them as stable a value as possible and let us do everything to prevent in future, even for a brief period, the occurrence of an inordinately high rate of exchange, which creates the impression that in this country the rate of exchange can deviate further from the par of gold and that the upper limit is farther away than in England. I should consider it a fine thing if we could say good-bye to the present status of our bank notes and say good-bye for good to a London exchange of 20.60.

Mr. ROLAND-LÜCKE. I will ask for your attention, gentlemen, for a moment, as I think it would be of advantage to make you acquainted before the close of to-day's session with a viewpoint which has not been brought forward till now.

It may be shown most convincingly that our financial preparedness for meeting crises is enhanced by the existing legal regulations and just as convincingly, on the other hand, that it is weakened by these very legal arrangements. However paradoxical this may appear, I am just going to take the liberty of laying the matter before the members with the request that they consider it most carefully—I frankly confess that I have not yet come to any positive conclusion myself—and I am glad that the adjournment is going to afford us at this point an opportunity of giving further consideration to this question

Not a few of us probably have adopted the principle that when a decision has to be made regarding some important business, if, without prejudicing the matter in hand, the decisive "yes" or "no" can wait till the morrow, it is just as well to leave the decision to the morrow.

But let us get to the subject. What the gentlemen have stated is perfectly correct. But what I am going to say now is, I believe, not altogether wrong either. Let us just consider this fact, that nobody nowadays thinks of saying that he is not bound to accept bank notes. We experienced something approaching a panic last year, and yet there was not a single case, as far as we are aware, of anyone saying, in spite of this circumstance: "No, sir; I will not have any bank notes; you just pay me in gold, Mr. Debtor." What would take place under existing circumstances, and, let us say, in the course of the next year or two if the whole thing were to be ventilated in the columns of the press? I know what; there would be a general feeling of astonishment and expressions like these: "Is it actually conceivable that this could have been the case in Germany?" "It is perfectly right that this is being done." "But a tremendously increased burden is going to be put on the Reichsbank in order to provide for possible contingencies, and you had better look out, you money lender, when you take a mortgage or make any other kind of a loan, that you insert in the contract repayment in gold." I am not afraid as regards the mortgages, for in the case of mortgages notice has to be given and a demand for payment can not suddenly be sprung upon one. What I have more particularly in mind is our creditors here in Germany, and the presentation of demands

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for payment in the case of obligations to pay in gold that will be entered into in future, perhaps in a light-hearted way. What would be the result? Suppose that next year, while the impression created by the law in question was still fresh, a very nervous condition should supervene which would lead a section of the people to imagine that a crisis was impending. What would happen then? Of course, a large portion of all those who have anything in the way of liquid credit balances will try to provide themselves with gold reserves in order to be prepared for any contingency. Now, I fear that such a needless run on the Reichsbank, due to a vague sense of insecurity, and the withdrawal of the gold from its vaults, would greatly weaken the institution and we should be in the situation where a great part of the people hoard their gold and refuse for the time being to part with it.

Guided by these considerations, I believe I have a right to ask you to ponder the question carefully as to whether, taking into account all the aspects of the case, it may not be possible that, instead of placing ourselves in a better financial situation for meeting an economic crisis or the contingency of war, we might be producing just the contrary result.

Doctor RIESSER (personal explanation). Just a word in reply to Herr Fischel. I stated emphatically that the proposition to have the notes declared legal tender by imperial decree is offered for discussion only in the same sense in which Herr Roland-Lücke's proposition was submitted, and I added expressly that I was not offering a resolution. In order to cut down the discussion to-morrow, I wish to say that my personal needs in this regard are satisfied. [Laughter.]

(Close of session 4.39 p. m.)

FRIDAY, *October 16, 1908—12 o'clock noon.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN, president of the Reichsbank directorium, Gentlemen, the next name on our list is that of Oberbergrat Doctor Wachler. I let him have the floor.

Doctor WACHLER. Those who believe with me that there ought to be as much gold as possible in circulation, in order that the legally constituted gold standard may be effective in the actual operations of business, will yet admit that under certain circumstances the circulation may be overcharged with this very expensive medium of exchange and will be ready to give an affirmative answer to the question that has been submitted to us as to whether it would be expedient to make it possible for the Reichsbank to draw upon the supply of gold that is in circulation in the country. There must necessarily be at all times a large volume of credit money in circulation alongside of gold coin, and in the case of credit money, as Geheimrat Wagner has very soundly put it, the only question is as to whether there is any assurance that it can at any moment be converted into gold. I have an impression that the outcome of the hearings of the experts is altogether favorable with respect to the question as to whether a means should be afforded of strengthening the gold supply of the Reichsbank by instituting the legal-tender quality of the bank notes. It was pointed out by Geheimrat Riesser yesterday that this question is not

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altogether such a simple one. It is not easy to perceive how the Reichsbank is going to get gold through the circumstance that a situation which practically exists already is to be formally declared such by legal enactment. Under the existing conditions everyone feels in reality that the state of the law is virtually such as to render a bank note a legal tender. If under these circumstances the amount of gold that finds its way into the Reichsbank is no larger, one is naturally tempted to ask in what way this is going to be changed if we insert an express provision in the law giving effect to what practically obtains already. It therefore appears to me natural that the majority of the experts should have been of opinion that the question submitted to them was one of no special importance, which might as well be shelved and the reply to which was of little concern. This would in reality be a comparatively favorable interpretation of the attitude of the experts toward this question. But all of a sudden in the midst of the hearings of the experts comes a gentleman with a theory which would put this legal-tender quality in an entirely different light and makes the desire to have bank notes made a legal tender appear in reality as a desire to do away with the gold standard. Then, those again who consider it dangerous to tamper in any way with the gold standard say: "We are not going to do this under any circumstances." Anyone who has listened to the utterances of the experts or who has read them without noticing these things which I have just mentioned will have to say that there is no one in reality in favor of making bank notes a legal tender; at least no necessity for it has been recognized.

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But if we look at the matter in the light of yesterday's debate and consider the question merely objectively, with reference to economic expediency, we can not help reaching a very different conclusion.

The experts, including Professor Lotz, have declared without any reservation that if no change is made in regard to the gold standard, if it is settled that the Reichsbank has to pay out gold whenever gold is demanded, and if, therefore, the legal-tender quality of the bank notes is not to be allowed to hold in the case of payments from the bank, there would be no danger whatever in declaring the notes a legal tender.

But we were requested by the president at yesterday's session to consider carefully how this thing would work out at a time of financial crisis. I must say for my part, though it may not sound altogether modest, that my decision in regard to this question is not at all influenced primarily by considerations relative to economic crises, as I assume that this legal-tender quality of the bank notes is something that is presumed to be called forth by the present situation without reference to possible crises. In France, as well as in England, no hesitation was felt in making bank notes a legal tender, partially, even in times of financial crises. In our bank act it was expressly declared that the element of compulsion should in no wise enter into the circulation of bank notes. It may, on account, perhaps, of other considerations, not have appeared opportune at the time of the establishment of the Reichsbank to enact a different provision, but I think it likely that if the law of 1875 had to be made over again to-day we should not do what we did then. In fact, we

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have heard some of the experts declare that they were actually not aware that the bank notes were not a legal tender. There can be no doubt about it that in business, in our every-day commercial transactions, the bank note is universally regarded as a legal tender. It is quite reasonable to imagine that someone may take it into his head to avail himself of the circumstance that the legal-tender quality is not expressed in the law and engage in some sort of trickery to the detriment of some one or another. There is no evidence, indeed, that such a thing has actually been done. All that we have ever heard of is that here and there the keepers of lottery offices have made the purchasers of tickets pay in gold, the idea being that the winners of prizes might ask for gold instead of paper. I am sure that these gentlemen had not the least reason to worry and could safely allow the matter to take care of itself. No one, I fancy, who had drawn a prize of 1,000 marks would have refused to take it even for an hour because the sum was handed over in bank notes instead of 20-mark pieces.

I am in general extremely opposed to any interference of the law in our economic affairs, because I know that our economic fabric is of so delicate a texture that any meddling with it, even if done with the best intentions, is likely to result in the snapping of threads that can never be joined again. But even those whose reasons for dreading the too frequent invocation of the law are often of the most subtle nature can not object if the legislator gives the sanction of law to what has already obtained for years and become fixed in the mind of the public and what is, moreover, acknowledged to be a useful regulation.

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The only question is, Is there any need for it? I believe there is. For even if the existing condition of the law may give rise to inquiry only on rare occasions, it is none the less the duty of the legislator to give the protection of the law to the situation actually recognized in practice.

As regards the time, the change ought by all means to be made right now. The question still remains as to how far the possibility of economic crises is to be taken into account. As for myself, I have already stated that the consideration of what may happen in a crisis does not affect my judgment regarding the matter, as I regard the provision in question as something which is absolutely called for with reference simply to the needs of normal times. I am willing to admit that the investment of the notes with the quality of a legal tender may perhaps not suffice for the maintenance of regular and undisturbed conditions in the matter of payments when a serious economic crisis is at hand. It will be necessary to resort to a further provision, and this will probably be the introduction of forced circulation. But to be worrying now over what may have to be done when there is a financial crisis seems to me a little premature. Crises have a way of coming which is altogether different from what we imagine and they always come when they are not expected. We can not afford to be continually preparing for a crisis and on that account to discontinue anything that serves us in our present situation. What additions will have to be made in critical times to the measures that we are now adopting is a question to be settled when it arises. Nor do I see any reason why we should hesitate on this account

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to adopt the measure in question without waiting any further, as it involves no change in our normal conditions and is not one which it would be well to hold in reserve for a special emergency. The thing that is proposed will in no way be to the prejudice of any arrangements that may be called for in order to meet a crisis. I believe also that the interests of the outside world will in no way be affected by the circumstance that our bank notes are declared a legal tender, a condition which already exists in France and England. Herr Schinckel has pointed out that the introduction of the legal-tender quality of the bank notes might affect existing conditions in a certain way, inasmuch as the redemption of the bank notes has hitherto always taken place only in Berlin, so that bills of exchange drawn in foreign countries on Frankfort or Hamburg might not be regarded as having precisely the same value as those drawn on Berlin. It was on this account, I presume, that Herr Schinckel was constrained to urge that the legal obligation be imposed on the Reichsbank to redeem its notes in gold at any time and place. I should be sorry, gentlemen, if such a legal provision were enacted, because, in the first place, it can not actually be carried into effect, and, moreover, because it would be in the way of further steps in advance that we should like to take. It is impossible for the Reichsbank to redeem bank notes in gold at any moment at any little place in the Province of Posen or in Silesia.

A VOICE. It was not asked to do this!

Doctor WACHLER. That is a practical impossibility. The regulation we propose to append to the bank act will not in

any way affect the customs or conditions that have hitherto obtained in the matter of payments and the circulation of money. The existing order in regard to the redemption of notes in gold has not resulted in abuses of any kind. If we are to make bank notes a legal tender, we need not on that account enact a provision regarding the places where they are to be redeemed, and I propose that we allow the law of 1875 to remain unaltered in this respect. If the Reichsbank were to be compelled to exchange notes for gold at any moment and at any place, it would have to keep a pretty good stock of gold on hand in every town of any size, and it would thereby be prevented from extending its system of branch offices, which I consider highly desirable. Another drawback would consist in the fact that the deposit business, which we all regard as so important, would cease to expand, or might even contract, or at most remain confined to the existing branch offices. As the condition of which Herr Schinckel complains relative to the redemption of the notes in gold has existed ever since the enactment of the laws of 1875, and as bills on Frankfort or Hamburg have in spite of this not been treated differently from those drawn on Berlin, I see no reason why we should insert in the bank act a provision of so—I was going to say—vexatious a nature. I am convinced, indeed, that even in the absence of a provision of this kind foreign countries will consider bills drawn on other places than Frankfort or Hamburg just as good as those drawn on Berlin, acting as they have hitherto done.

A further question that has been brought up is whether it might be well not to make bank notes of small denomi-

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nations a legal tender. Should these small notes be looked upon more or less in the same way as fractional coins? I should regard it as a great mistake. A bank note is a bank note. If the Reichsbank issues small notes, it ought to redeem them precisely as it does the large notes. I am therefore in favor of making bank notes of every denomination a legal tender.

We have still to define our position in regard to the imperial treasury notes. Here I hold a different view from that of Herr Fischel. He declared yesterday that he did not like these treasury notes. I can assure him that the more I have of them the better I like them. [Laughter.] A further question is whether we ought to make these bills a legal tender likewise. The law of April 30, 1874, paragraph 5, declares expressly that they are not to be a legal tender. If we are to enact an amendment to the bank act of 1875 now, that is not the place for amending the act of April 30, 1874. We might perhaps consider it as something desirable, but there is no absolute necessity for amalgamating the treasury notes with the bank notes. I should not consider it expedient to insert such a provision regarding the treasury notes in the bank act. Besides we are all aware that the imperial treasury notes are an unprotected paper currency, and all the experts have asserted that it would be a good thing if we could get rid of them entirely by the process of redemption. But in our present financial situation it would be altogether impossible to do this immediately. There would be no other way of going about it than by means of a loan, and we are told on every side to beware of new loans.

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And now how about the status of the notes of the other banks? If we are going to declare in the act relative to the Reichsbank that the provisions respecting it apply also to the other banks of issue, we can not count on its meeting with universal assent. There is in reality no necessity for it. We should, however, consider it expedient, and in fact necessary, to offer some sort of compensation to the private banks of issue. Just how this is to be done is not an easy question, and I, for my part, have nothing to suggest. We shall have to leave it to the Reichstag and the Bundesrat to find some suitable means.

I should like to say a word more in regard to critical situations. The more our economic existence shall develop, and the more extended and close our commercial relations with the outside world become, the greater and more acute will be the disturbances that follow in the wake of economic convulsions, and they can be overcome only through a powerful financial mechanism aided by great resources.

Much has been said, gentlemen, about the concentration of money power and about plutocracy, with special reference to the influence of the great banks, and we hear frequent warnings of the great dangers that threaten us. I believe that we have never yet experienced an abuse of the concentration of capital. The hearings of the experts went to show that the management of the banks has hitherto been excellent, but that, as man is frail and mortal, it is necessary to take such steps as will prevent capital from abusing its power in future. In the case of

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really severe crises, such as have to be fought by the mobilization, so to say, of capital on a large scale, it is not a question of the concentration of small amounts of capital, but of huge sums. We ought, therefore, to see to it now that such immense sums can be mobilized and refrain from any legislation that would hamper the activity of the very institutions—that is to say, the great banks and the Bourse—that could effect this object and bring the needed relief. Otherwise, it seems to me, we shall only be throwing obstacles in the way of the well-ordered financial mobilization which will be necessary in future whenever a crisis sets in as the result of some disturbance in our economic existence. It would be wrong on our part, therefore, to regard the single mistakes, of which the most wisely managed institutions are now and then confessedly guilty, as an evidence of the necessity of depriving them of their free and independent activity and of interfering with them and weakening them in such a way as to make it impossible for them to perform afterwards what they could do had they not been crippled.

Having stated this much, I shall in conclusion merely say that I can not see any objection to our imparting to the actually existing condition the sanction of law by making the bank notes a legal tender.

Mr. PETER. Gentlemen, the question whether it would be advisable to try to add to the metallic stock in the Reichsbank by withdrawing gold from circulation is no longer a doubtful one, it having been universally answered in the affirmative. It is a general conviction

that the amount of gold in circulation can and must be curtailed. Men who have a technical knowledge of such matters have been advocating it for some time past and the recent scarcity of money has called the attention of all classes to the subject. General interest has, accordingly, been manifested in the interrogatory that has been submitted to us. If I had been called upon to deliver an opinion in the spring of the year regarding the question before us it would have been very much at variance with the one which I wish to submit to-day after studying the various opinions of the experts and especially after carefully noting all that has been said here in such a convincing manner in the course of the last few days. I considered the investment of the bank notes with the legal-tender quality an unnecessary and even mischievous measure—unnecessary because I said to myself, no one would dream of refusing the notes of the Reichsbank by reason of any doubt as to their absolute security, and because any person who for some reason must absolutely have gold would not have the least difficulty in getting it, as all he would have to do would be to go to the Reichsbank and have the notes redeemed. I regarded the measure as mischievous because it was calculated to awaken mistrust—unfounded, of course—on the part of the outside world.

My view of the matter to-day is a different one. For one thing, the situation has changed; we can safely say that it has improved materially. I am in favor of making the notes of the Reichsbank a legal tender. I agree with those who say that a good paterfamilias is accustomed to

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look ahead and is not in the habit of reserving for a critical time what he can do to better advantage now. But what has more especially influenced my judgment is the circumstance that the general opinion in regard to the financial condition of Germany has undergone a most encouraging change since the time when we assembled here to get the opinions of the experts. Apart from the condition of the Reichsbank, which to-day has more gold in its vaults than it has ever had, it must have become evident to the world at large that Germany is not so very badly off with respect to its paying capacity. A nation that of its own accord raises 5,500,000 marks for the Zeppelin fund can not be poor. I have no longer any apprehensions regarding our standing abroad. I think, on the contrary, that the measure will have a wholesome effect. Even foreign countries can not help perceiving in it an evidence of strength and self-confidence, all the more so as it is a clear indication that no one in Germany thinks of touching the foundation stones of our monetary standard.

The question has been raised as to how the measure would work with respect to our own internal situation, and, in particular, as to whether there might not be some danger, at a time of financial crisis in Germany, that a great deal of gold would be hoarded away by timid people, so that the stock of gold in the vaults of the Reichsbank, instead of being augmented, would be reduced. It is quite likely, of course, that individuals here and there will put aside some gold in order to meet their liabilities. I believe, however, that this state of things will not last and that in a short time the gold will make its appearance

again, as people will find out that this expensive sort of reserve is superfluous.

As for the time when the proposed change ought to go into effect, I believe a good opportunity will be afforded now by the enactment of the supplementary bank act.

I approve of Director Schinckel's suggestion that the notes be made redeemable at all the branches of the Reichsbank. I propose, however, in addition, that the branches be obliged to redeem immediately only so far as circumstances will permit. [Exclamation: "That is embodied in the law as it stands."] They will, of course, be expected to do their best to get the gold as quickly as possible.

I see no danger whatever in making the 120,000,000 marks of imperial treasury notes a legal tender.

I take the liberty of suggesting that a proviso be attached to the enactment regarding the legal-tender quality of the bank notes (of which I approve), one which, in my opinion, ought to be and can be put into effect. It can not be gainsaid that the measure in question would operate to the prejudice of the other banks of issue, as there will be no possibility of making the notes of the private banks a legal tender. On account of the great difference thus created, these notes would not be considered as safe as before, and their already limited circulation would be further curtailed. But the individual States concerned are greatly interested in the maintenance of their banks of issue, which are of great service in satisfying the needs of credit within their territories. Some sort of indemnity, if not a complete one, could be offered to the

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private banks of issue by amending the provision according to which the notes of these banks must be accepted at the branch offices of the Reichsbank in cities with a population of not less than 80,000 in such a way as to make it apply to all branch offices of the Reichsbank, and by enacting a further provision to the effect that these notes shall be received in payment of imperial dues as well as of dues of the respective States.

I beg the directors of the Reichsbank to receive my suggestion in a friendly spirit.

I wish to say in conclusion that I assume that the legal-tender quality does not apply to payments made by the Reichsbank.

Mr. ROLAND-LÜCKE. Proceeding from the assumption that exceptional crises and in particular great military events call for exceptional legislative measures, I have previously dealt with the question that is now before us, and in view of the existing conditions in Germany and the world at large I have pronounced the proposed introduction of the legal-tender quality of the notes of the Reichsbank as not only useless but, under certain conditions, dangerous. I hardly think it is necessary for me to rehearse my arguments.

Our chairman sought, however, yesterday to impress upon us the necessity of returning as explicit and clear-cut an answer as possible to the question as to whether it is not imperative, with respect to our financial preparedness to meet a crisis, to make the notes of the Reichsbank a legal tender. We have all been made to feel, as I stated yesterday, that this is a question which, in the first place,

irrespective of our individual convictions, we are bound to consider. I endeavored at the very end to explain to you the considerations that weighed most with me yesterday. I have a feeling that I may not have succeeded in making my meaning perfectly clear to all of you. I propose to proceed at first from the standpoint of the president of the Reichsbank.

If the law is enacted in the natural course of events, we must bear in mind that when the intention of enacting such a law shall be announced, that will be the moment which will evoke public criticism at home and abroad and will call for some practical measures consequent upon the expression of the public judgment. In view of this, it is necessary for us to distinguish between the effect that will be produced prior to January 1, 1911, and that which will be manifested later. I mention January 1, 1911, because I assume that the law is to go into effect at that date, nothing being provided to the contrary.

Now, I must tell you that if I were asked whether our readiness to meet a crisis up to January 1, 1911, will be promoted by such a legislative enactment I should reply that I am still decidedly of opinion that the result would be just the reverse, because the restlessness of criticism, the consideration of what is back of it and what may be back of it, and the speculation regarding the probable effect of the measure will cause many prudent people, the moment there was any evidence of uneasiness, to resort at once to corresponding action, so that, as far as the Reichsbank is concerned, the result will be just the contrary of what was contemplated.

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But we are bound also to consider the future. Will the situation, apart from the question of any immediate danger, be improved by a measure of this kind? It has been my endeavor throughout my life to utter in the case of important questions a clear and straight "yes" or "no". I must confess that in this case, in spite of my best efforts, I have not succeeded in getting the scales to declare for *pro* or for *contra*. They continue to oscillate, and you must allow me to explain to you the cause of that oscillation, in doing which I shall try to be as concise as possible. It is well in such weighty matters that we should not have any false notions regarding the nature of the misgivings of one or another.

The Reichsbank asks with reason: "How are we going to protect our gold reserve in order to meet crises and, in particular, the contingency of war?" The longer we can protect it, the greater will be the protection that we can afford to our economic activities. The Reichsbank consequently asks further: "What are the influences that are calculated to endanger the gold in the Reichsbank at a time when a crisis is imminent, and what are the influences that tend toward an active manifestation of a desire to take gold out of the Reichsbank?"

I believe that these influences can be evoked by a feeling of mistrust, which may assert itself in three different ways—it may be in a single way, or it may be in two ways, or in all three at the same time.

One kind of mistrust, which, for the sake of convenience, we shall call "A," is that which is apt to be manifested abroad when people begin to believe in the likelihood that Germany will be involved in war—this is said

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of course, with reference only to great European wars. Now, will the circumstance that the notes of the Reichsbank are a legal tender have the effect of diminishing or preventing such mistrust? By no means; for the outside world, if it thinks that Germany is going to war and that perhaps she may even get the worst of it, will try as quickly as possible to save whatever it can of its credit balances in Germany; in other words, it will do its best to get gold as fast as it can from Germany.

In our country there are two other kinds of mistrust, representing two distinct factors that we have to reckon with, which I shall designate as "B" and "C." Let us first consider B. There will be people who in such a situation will have their fears and doubts as to whether the war will be over soon and end in a victory for Germany. Those who are apprehensive in regard to the outcome, be they private individuals who, as prudent heads of families, are anxious to provide for every emergency, or business men who have large liabilities, for the meeting of which they must make provision if they wish to act like responsible persons, will try, as far as their means allow, to accumulate some sort of a reserve. They will say to themselves that such a reserve must consist of gold and nothing else, and furthermore, of gold stored up in a place which, no matter what anyone else may want, can be made accessible at any moment; that is to say, they will take the gold out of the Reichsbank whether the bank notes are legal tender or not. Even those whose apprehensions regarding the immediate future are coupled with faith in the ultimate triumph of Germany will act likewise. And now for the kind of mistrust which I have designated as C. There are people who would ordinarily

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not feel like making a run on the Reichsbank for gold but who reason in this way: "Suppose the Reichsbank does fail to live up to its obligations and no longer redeems its notes in gold, you are still in duty bound to meet with gold payments the liabilities contracted abroad, as well as any you may have contracted at home with the stipulation that payment shall be made in gold, and consequently you must have gold. Therefore go and get the gold and do not mind whether the bank notes are legal tender or not." But a large body will consist of those who have simply obligations to pay without any reference to the kind of tender. In the absence of the legal tender quality of the notes of the Reichsbank we shall in the event of war have to reckon on the fact that these people will ask for gold, as they must expect to have demands made upon them for payments in gold; while if we have such a thing as the legal tender quality of the bank notes, it is natural to assume that this widespread desire to obtain gold will not assert itself, since everybody is compelled to accept bank notes in payment.

If we allow a very great amount of weight to this last consideration, we can not help coming to the conclusion that the law relative to the Reichsbank would in such cases have a salutary effect. It all depends on how numerous a body of people it is who on the outbreak of war reason in this way: "Since the notes of the Reichsbank are a legal tender, this legal-tender quality and the obligation to redeem the notes are enough to make it unnecessary for me to provide a direct security in the way of a gold reserve." I must confess that I place little

reliance on the beneficial effects produced by such a state of mind and do not believe that the gain for the Reichsbank will be very great.

The likelihood still remains that the Reichsbank, perhaps by reason of the widespread feeling of uneasiness which the law for some time to come will be capable of exciting and which will become most acute at a time of severe political stress, will in troublesome times be weakened instead of strengthened.

I must say, however, that I am not so presumptuous as to say to anyone who is entirely deserving of confidence if he finds that some measure or another is materially conducive to his efficiency: "No; I shall not furnish you with that." I believe, therefore, that the entire responsibility should and can be allowed to rest with the board of directors of the Reichsbank, whose final vote ought to be decisive in the matter.

This is the way, then, that I should express my vote. As in my answer to the question before us I can not afford to leave out of consideration the possibility of extraordinary crises and great wars, with which Germany may be threatened, I am willing to let the matter of laying aside my objections and misgivings in regard to the utility and necessity of the immediate investment of the notes of the Reichsbank with the quality of a legal tender depend upon the decision of the board of directors, who are doing their best to protect the bank's stock of gold. The directors have undoubtedly weighed all the arguments in favor of and against the law, and we may expect them to declare their own views regarding the matter.

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If we were not taking into account the matter of crises and war, I should once more raise my voice, and that in a most decided tone of warning, against the introduction of this measure, which is not called for at all at the present moment.

Two other questions have come under discussion which I should also like to answer now. I should consider it a good thing if we could do away with our imperial treasury notes, and I believe that such a step would produce a favorable impression. But as the reform of our imperial financial system appears to me to be of paramount importance, and as I should not like by any means to complicate matters on account of my concern in regard to these 120,000,000 marks and add to the great difficulties that are in the way of this reform by introducing a fresh subject of controversy, I shall be perfectly willing to hold my desires in this direction in abeyance.

As to the suggestion of Herr Schinckel, which, I am sensible, merits very careful consideration, that the bank notes be made redeemable without any limitation at all the offices of the Reichsbank—of course this is intended to apply to the main offices only—I am of opinion, after closer consideration, and just because we are taking such circumstances as crises into account—though I am keenly alive to Herr Schinckel's feelings in the matter—that it will have to be rejected. When we begin to deal with the matter with reference to the ability of the Reichsbank to protect its gold in such cases, we are constrained to say that the proposition is altogether untenable. It would not do for us to facilitate the efforts that would

probably be made to take away gold from Germany as fast as possible by affording the means of getting gold in the easiest, quickest, and most ruthless way on our borders and at our seaports.

I believe that we have still to consider the question of what will happen if people should demand gold during a panic and be told that they can not get it. I must say, gentlemen, that the thing does not appear to me so terrible. In regard to this matter I have had some little experience of my own, on the occasion of the so-called "black week" of 1893 in New York, during part of which I had the advantage of being on the spot, my time being spent in the offices of the few banking firms which at that time attended to the foreign business of New York. I was present when Americans came to the window and presented sight drafts drawn in foreign countries, that read "Payable in United States gold dollars." The bankers on whom the drafts were drawn replied to the question whether they acknowledged the drafts and were obliged to pay them with an unconditional "Yes." The holders of the drafts demanded their gold. The bankers, among whom one whose cash in hand amounted all told to about \$20,000 (in silver and gold) was supposed at the moment to be better off than all the others in this respect, answered in the coolest manner: "There is no gold. You see, the gold is all stowed away in the safes, which in the last few days people have been cramming with gold and bank notes." "Yes, that is very well," the holder of a draft says, "but I have a right to demand gold; I must have gold, for I have got to pay in gold myself."

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“But, my dear sir, there is none.” “Well, then, let me have bank notes.” “There are none of those to be had, either. I’ll tell you what we can do for you. We will let you have \$500, and the remaining \$9,500 we shall have transferred to your account in your bank. Of course you have your own bank.” “That is all right, but I can’t get any gold at my bank either.” “Well, what can I do for you?” During those days, gentlemen, I watched the various kinds of people in the office of one banker or another and I can assure you that I did not notice the slightest thing in the way of anybody’s saying: “Well, then, I shall have to go to court about it” or “I see I shall have to take measures to compel you,” and that all of them, without exception, after being reasoned with more or less, all of which was done in the quietest way, despite the general panic, resigned themselves with good grace to the inevitable. That is the reason why I have to warn you against proceeding at this very moment to devise means which you think will make it sure that every panic-stricken person at a time of a financial crisis shall get his gold on the spot. Just let the man, if he happens to come suddenly with a demand for gold, say, in Aachen or in Hamburg or in Bremen, be made quietly to understand that he must be prepared to receive an answer like this from the Reichsbank: “You see, we shall have to get the gold first; you will have to wait two or three days.” However desirable an immediate payment on demand might be in itself, in order to prevent the spread of a feeling of uneasiness, still I think it would be well if the obligations of the Reichsbank in such cases were to remain only such as they are at

present. If there were no such thing as the paragraph in question in the laws relating to the Reichsbank I should, of course, not dream of insisting on its enactment at this time, but inasmuch as the bank actually has that paragraph I should consider it a great mistake to alter the regulation by which the Reichsbank in case of emergency is not obliged to redeem its bank notes at any other place than Berlin.

Doctor LÆXIS. I also wish to express myself in favor of making the notes of the Reichsbank a legal tender, although I formerly had some doubts as to whether this was an opportune moment, misgivings which, in common with the other members, I have now dismissed, and I therefore urge the enactment of such a provision. It will have to be declared in unequivocal terms, as Herr Fischel urged yesterday, just as in the case of the Bank of England, that the bank is absolutely bound to redeem its notes in gold, and this declaration will have to be made in a twofold manner; firstly, by declaring the notes a legal tender as long as the bank continues to redeem them in gold, and, secondly, by expressly prescribing the obligation of the bank to redeem its notes in gold at the particular place where such a provision is at present lacking, to wit, in paragraph 18 of the act relating to the Reichsbank. Paragraph 18 reads: "The bank is bound to redeem its notes at any time at its main office in current German money." It would be well, as there is no apprehension any longer in regard to payments in silver, to declare here distinctly that it is bound to redeem its notes in gold on demand [Exclamations of "Quite right"] and simply

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to drop the expression "current German money." Formerly, indeed, there was more meaning in this passage, at the time when we still had talers, which were current money and a legal tender to any amount. Nevertheless, this paragraph should by all means be changed, and the notes should be explicitly declared redeemable in gold in all cases.

As regards the results of the enactment of a provision making the notes of the Reichsbank a legal tender, I shall not at this moment discuss Herr Roland-Lücke's grounds for apprehension, but I wish to say that one of the chief reasons why I am in favor of this measure is precisely that the public ought gradually to become actually accustomed to regard the bank notes as beyond a doubt a legal tender. It may be quite correct to argue that in reality the notes are a legal tender now, but the fact remains that if an acute crisis should at some time or another be actually at hand, the public would soon awake to the knowledge that the notes are not a legal tender. There are plenty of people who know it, and the knowledge would spread rapidly from one to another. We have become fully aware of this by experience. It is therefore of great importance just in the case of a crisis that the legal-tender quality shall already have become actually established and matter of common knowledge, and if this were so some of Herr Roland-Lücke's doubts and fears will prove to have been baseless. At all events such apprehensions would be much more justified if, at a time like that, the legal-tender quality did not actually exist and the public found this out, which it certainly would do. In that case a number of people would undoubtedly feel prompted to

hoard gold. That is sure to happen. It happened in France immediately after the outbreak of the war; gold disappeared at once from circulation; so did silver. Such a hoarding of gold would undoubtedly also take place in Germany and it is important in such a case that bank notes shall continue to be available for payments by force of law; otherwise all creditors might demand gold from their debtors. With the bank notes circulating as a legal tender, the situation would, in any case, be rendered less serious than it would otherwise have been.

And now as to the question: "Would the redemption of the bank notes have to be suspended in time of war?" It is at all events probable that the legal-tender quality of the notes will have the effect of putting off the necessity of stopping specie payments. Everything, of course, depends on the result of the military operations. If the war turned out like that of 1870, which was at once carried into the enemy's country, we should not have any trouble. If we take the case of France, however, I am not ready to believe with Herr Fischel that if at the outbreak of hostilities the bank notes in that country had been a legal tender, the necessity of suspending their redemption might perhaps have been averted. The suspension of specie payments would have been rendered inevitable by the fact that the Bank of France was compelled to grant the State a credit of 1,500,000,000 francs, of which credit the government actually availed itself to the extent of 1,350,000,000 francs.

As an illustration of how even a disastrous war may be carried on without recourse being had to forced circulation we may point, as Herr Fischel has done, to the recent

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experience of Russia. As a matter of fact, Russia stood this test of endurance in a remarkable manner. She managed to get through without resort to forced currency. During the entire continuance of the war the premium on gold remained very slight—in the neighborhood of 2 per cent. Of course, the conditions were very different from those in the case of a European struggle. In Russia the expenditures for the conduct of the war could be made gradually. There was no necessity of making enormous payments at any one time. The troops could be sent to the front gradually. The forward movement was a slow one. In the meanwhile the Government could secure support, on the strength of its credit, in western Europe. Besides, Russia did not dispatch more than a few hundred thousand men to the Far East; I believe the number at no time exceeded 300,000.

With reference to the imperial treasury notes, a circumstance that has to be considered is that in case of war, without a resort to forced circulation, the issue of bank notes would have to be increased and more small notes would have to be issued, and it is this aspect of the matter alone that enables me to believe in some measure in the efficacy of the treasury notes. We should need them in such an emergency, in which case it would be preferable for the public to have already had them and become accustomed to them, as this would make it easier to add to the volume of paper currency (if this should prove necessary) by the issue of an additional amount of notes of the Reichsbank. But I do not think it would be of any advantage to raise the treasury notes to a higher

level as a tender at this moment. In fact, the treasury notes are in a way accorded a superiority over the bank notes, as they are a legal tender in the payment of public dues, which the bank notes are not. Indeed, it is explicitly declared in the act relating to the Reichsbank that no law shall be enacted by the States investing bank notes, even the notes of the Reichsbank, with the quality of a legal tender in the payment of public dues." In regard to the matter of indemnifying the private banks of issue, I believe that such indemnity might well take the shape of an abrogation of this provision, which would leave the individual States of the Empire free to enact regulations making the notes of the private banks of issue a legal tender in the case of payments made into the state treasury, a quality which they do not possess at present.

Doctor WEBER. The broad standpoint, gentlemen, which our president introduced into the discussion yesterday and with reference to which, as a basis, the expressions of opinion that we have heard to-day, as well as the day before, have mostly been framed, renders it extremely difficult to adopt a different view in regard to the question of making the bank notes a legal tender from that held by most of the members who have spoken thus far. I should not like to appear so presumptuous as to dissent from the opinion expressed by our president and the majority of the speakers. But I believe that what Herr Roland-Lücke has stated merits the most serious consideration, particularly in view of the fact which he pointed out and on which he laid stress in the brief remarks which he made

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yesterday with reference to the order of the day, that before the close of this year or at the beginning of next year the bill relative to the Reichsbank will be submitted to us. This gives rise to the apprehension that, inasmuch as a whole year will have to elapse before the bill can be enacted into a law, it is just possible that timorous people, at home and abroad, will try to avail themselves of this interval to convert their cash resources and their assets in the way of sums due them into gold. Proceeding from this point of view, one of the members of this commission made a proposition yesterday which has been excluded from the discussion, but which, in view of the apprehension to which I have referred, may have been deserving of consideration. Neither do I consider it out of the question that at some time, under certain circumstances, the outside world may again resort to the means which President Kaempf discussed in detail yesterday. He rightly pointed out that already in the spring of this year serious efforts were made in foreign countries wantonly to assail the credit of Germany, and it is not at all impossible that the proposed measure decreeing the legal tender quality of bank notes, even if, by reason of the like state of the law in France and England, there be no new departure in it as far as those countries are concerned, will be exploited by our rivals in order to create ill feeling toward Germany. These considerations may have weight also with respect to those aspects of the case that President Havenstein has emphasized, as well as the one on which Herr Roland-Lücke has dwelt, whose speculation regarding what might happen in a crisis if the notes were made a legal tender,

are very stimulating indeed. My esteemed colleague, Herr Fischel, is, it is true, of a different opinion. He holds—and Geheimrat Lexis expressed himself to the same effect—that the investment of the bank notes with the quality of a legal tender may have the effect of enabling Germany in case of war, or at a time when trouble seems to be brewing or the financial situation has become critical, to escape the necessity of a resort to forced currency, just as had been the case in Russia during the Japanese war. Now, it seems to me that the factors which shaped the money market in Russia were of a very different nature from those which can determine the financial currents in Germany. To begin with, the mobilization of the troops in Germany would have to take place on a much larger scale and much more rapidly than in Russia, so that we should need much larger sums of money, and, in the second place, the commercial relations existing between Russia and other countries are very different from those which Germany has with the outside world, because the business activity of Russia and her participation in the world's commerce are not of that wide-reaching and intensive character which Germany's commercial activity manifests, and because in any case the demands that would be made on Germany in critical times would be of a different kind and on a larger scale than those which Russia probably had to face in those momentous days.

I should not like to have you infer from all this, gentlemen, that I am of such an anxious disposition as to say that we should hesitate under whatsoever circumstances to establish formally by legislative enactment a status in

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Germany which is practically a legally constituted one at the present day. I do not share that opinion which has found expression now and then in the newspapers and in various disquisitions, that we should try to avoid under all circumstances exposing ourselves to the criticisms of the outside world.

I am all the less apprehensive because, in spite of the proposed financial reforms, which will involve the burden of new imperial taxes on a large scale, our financial situation to-day is, on the whole, such a secure one that we can easily stand such criticism. We can point to the monetary laws in England and France, in which the provision in question has long been embodied without anybody's ever expressing a doubt as to the soundness of the respective banks. As it is, we are able, in spite of the critical days of 1907 and 1908, to point to much more favorable constellations as we gaze into the horoscope that tells of Germany's economic future.

Gentlemen, I regard the framing of the bank act as affording us the only opportunity, and that the right one, of introducing into our legal code the formal sanction of the existing condition. The enactment of a special measure would naturally create widespread uneasiness and add greatly to any feeling of mistrust that may already exist, which would be rendered all the more intense by the fact that in the enactment of a special law of this kind we should be obliged, in stating the reasons in the bill, to refer to existing conditions in a way that would not be necessary in the case of the bank act.

But if this thing, gentlemen, is to be introduced into our legal code, if we are to make our bank notes a legal

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tender, I am of opinion that the small bank notes should be invested with the same quality as the large ones. The assumption that there is nothing in this legislation relative to legal tender to imply that we are tampering in any way with our gold standard, pure and simple, I regard as a matter of course. Nor do I agree with Oberbergrat Wachler that the Reichsbank ought to be compelled to redeem its notes in gold at all its main branches. I believe he is mistaken if he thinks that the bank notes have now to be redeemed in gold at all the branch offices. The Reichsbank is obliged at present to redeem them at any time and up to any amount only in Berlin. I should hesitate all the more in this matter because I know by practical experience that at some places, as on the Saxon-Bohemian boundary and on the Silesian frontier, a pretty brisk business in gold is at certain times carried on, which would be encouraged, certainly not to the advantage of the Imperial Government, if we should by any legal enactment compel the redemption of the notes in gold without any hindrance or limitation at such places, say, as Dresden or Gorlitz or Breslau. Just at a time when our financial situation happened to reach a critical stage, there would be a rush to these places and to our seaports on the part of those engaged in this kind of business, and it will have been made much easier for people to get away with our gold than if they were forced to wait several days and obtain the gold from Berlin at increased expense.

In the question sheet the question relative to legal tender is contained in Question IV under the interrogatory as to whether a measure of the kind in question would tend to augment the stock of gold. I am of opinion that it would

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not. I see absolutely no reason for believing that the legalizing of an actually existing situation will effect any change. At the present time—the speakers have all dwelt on this fact—the bank notes are actually recognized as a legal tender without anybody's giving the least thought to the matter, and I am sure that a legislative enactment explicitly declaring them to be a legal tender will have no effect whatever upon the amount of gold in the vaults of the Reichsbank. I am by all means of the opinion, set forth by Herr Schinckel, that payments by the Reichsbank should be made in gold. We find in reading the printed opinions of the experts that some among them are under the impression that if we have a legal provision making it compulsory for the Reichsbank to make gold payments, or what amounts to gold payments, just as is the case with the Bank of England, it might perhaps be expedient to enact a provision compelling the postal department, the government establishments connected with transportation, and those charged with the disbursement of public funds, to pay gold whenever gold is demanded. I should, of course, consider this a very dangerous thing to do. It would absolutely go counter to the very step which we are taking in making bank notes a legal tender. We should be deprived of this very advantage that in certain emergencies, as our president has pointed out, the officers charged with the keeping of public funds might be ordered—and in this the governments of the individual States would be asked to cooperate—to send on their supplies of gold to the Reichsbank, in order to erect a barrier against a violent withdrawal of the precious metal.

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As regards the 20-mark notes, I am in favor of inserting a special provision in the act, making them likewise redeemable in gold. I thought originally, that, inasmuch as the bank act declares that the notes are redeemable in gold in Berlin, one had a right to infer that the 20-mark notes were also redeemable in gold, in spite of the clause in the coinage laws making fractional coin a legal tender up to 20 marks. I discussed the matter, however, yesterday with one of the members present and found out from him that I was laboring under a misapprehension. I am now persuaded that we have to insert a special clause in regard to the 20-mark notes, even if I consider the whole matter one of little importance on account of the comparatively small volume of exchanges effected by these notes.

And now, gentlemen, as to the imperial treasury notes. My neighbor to the right, Doctor Wachler, spoke of these treasury notes as being his favorite paper money. I regret that I can not agree with him. It may be a fine thing to own a lot of them, but there is one point to which I should like to call your attention, which has not been discussed thus far. It is this: If we make bank notes a legal tender we, in a sense, depreciate the treasury notes—this is undeniable—and yet we make use of these treasury notes, which are not legal tender, as part of our reserve for the protection of our bank notes, which are legal tender. If I have been opposed all along to these treasury notes, I must say that my antipathy has been increased by this circumstance, with which we shall have to reckon if we make bank notes a legal tender. If we propose to the Government or to the Reichstag that the imperial

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revenues be increased by 500,000,000 marks, we shall hardly be in a position to issue a loan in order to take up the treasury notes, whose suppression is intended to strengthen and not to weaken the loan market; and yet there is no other way of getting rid of them than by the issue of a loan.

Permit me, gentlemen, to say a few words concerning the private banks of issue. I feel sure, to begin with, that what I have to say on this subject will jar with the opinions entertained by some of the members of this commission. The matter has already been touched upon in our discussions and therefore I think I am entitled to say a few words in regard to it, as I happen to represent a country which has a splendidly managed private bank of issue, the Sächsische Bank of Dresden. I am perfectly aware, gentlemen, that the matter of making the notes of the private banks of issue a legal tender is a thing not to be entertained, nor even discussed. But, on the other hand, we can not afford to overlook the fact in regard to the notes of the private banks, any more than in the case of the treasury notes, that they undergo in a sense a depreciation in so far as their position would be rendered still more emphatically than it is to-day a secondary one by the side of the notes of the Reichsbank if these were made a legal tender. I fully realize that we can not under any circumstances allow the notes of the private banks to stand precisely on the same level with those of the Reichsbank. It would amount to giving them the right to acquire domicile in every part of the German Empire, which can not be permitted. But I wish to submit to you, gentle-

men, a little scheme of my own, which I think is perhaps practicable and which is not likely to encounter any opposition on the part of the management of the Reichsbank. I propose to introduce a slight modification in the existing situation by making the notes of the private banks of issue in the individual States of the Empire redeemable without restriction at the offices of the Reichsbank existing in the State in which the private bank is located. I should also like to suggest a further slight concession. Suppose I happen to be traveling by rail, say, from Dresden to Breslau, and, when I get to Görlitz, which is a station belonging in common to the Saxon and Prussian railway systems, I ask for a ticket at the Prussian ticket office and hand the agent a bill of the Sächsische Bank, he has a right to hand this Saxon bank note straightway back to me. The present arrangement occasions needless vexation. I have been living there long enough and know the situation pretty thoroughly.

Perhaps the whole thing could be arranged in a satisfactory way, consistently with the prevention of any attempt to domicile these notes where they do not belong, by the framing of a regulation, not through the regular legislative channels but by the common action of the individual governments, that at least at these frontier offices, and at the railway ticket offices in general, and perhaps also at the post-offices, the notes of the Saxon bank and the other private banks of issue shall be accepted. I am saying this with the leave of the president of the Reichsbank. This matter is not altogether pragmatic to the subject we are considering, but it has been

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brought up by the private banks of issue, and, even if it be not so very important, I think it would be well worth while for us to discuss it.

In regard to the probable effect in the country of making the bank notes a legal tender, Herr Roland-Lücke has called our attention to two very serious aspects of the case. I must say that I am not altogether without fear, either, lest, after we have enacted this regulation it may become a common thing, especially in the case of important documents and long-term contracts, to introduce the gold-payment clause, and that not in the way to which we have hitherto been accustomed. The common people, as represented by the small merchant away off in one of our provinces, is singularly mistrustful, and we are all aware that not only in our own country but elsewhere, as, for example, in France (as was manifested in 1870-71), the people began to hoard gold on the slightest occasion, although there may in reality not be the least reason for it. Whether there is any way, and what means there may be, of counteracting this tendency, and whether the status which the notes of the Reichsbank have already acquired or the attitude which the Reichstag is likely to assume toward the whole question will have the effect of preventing any feeling of uneasiness among the people, all this still appears to me unsettled. But in order to provide against any trouble that might arise should the law in question be enacted, from frequent cases of disagreement between the parties to a contract as to the nature of the tender in the payment that is to be made, it might perhaps be well to consider whether it would not be advisable to

introduce a provision in our bank act similar to the clause relating to this subject which is to be found in the Austrian bank act of 1899, article 86, of the new statute. This would have the effect of preventing anyone, if the bank notes are legal tender, from demanding gold in the absence of an express stipulation providing for payment in gold. It may be worth while to try to find some remedy at the outset for this possible drawback.

I have still to speak of one other matter, gentlemen, which the experts have touched upon. A gentleman who is quite an authority in these things has expressed the fear that the investment of the bank notes with the quality of a legal tender may have the effect of sending up the rate of interest again in Germany. I must say that I do not share this apprehension in the least. This matter of legal tender can not possibly affect the rate of interest in any manner in the German Empire, and I do not see the need of any precautionary measures whatsoever in this regard.

I will conclude by saying that I do not by any means dissent from the broad proposition on which our president has based his utterances, and that I am likewise of opinion that we ought in the last resort to abide by the views of the Government, just as we have repeatedly done in Parliament, as, for example, this spring on the occasion of the laws relating to the coinage, but that I can not altogether lay aside my misgivings, such as I have felt all along, so that I have decided to make my definitive formal expression of opinion, as Herr Roland-Lücke has done, depend upon the decision of the Reichsbank management and the Imperial Government.

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Mr. SCHINCKEL. Our esteemed colleague, Freiherr von Gamp, has certainly a right, gentlemen, to differ with me in his opinion, and, indeed, with other members of this body, as he frequently does. I regret to say, however, that I do not think he is justified in charging, on the strength of my remarks yesterday, that local patriotism was back of the views which I had expressed in this assembly, and in asserting that this was the case on an occasion where such considerations were especially out of place. I believe, on the contrary, that it is my duty to express my opinions with absolute frankness in this distinguished body, altogether unmindful of such assaults.

I am too deeply interested, gentlemen, in the matter I brought up yesterday to allow it to be disposed of in the manner in which Freiherr von Gamp thought he would dispose of it. When I expressed myself in favor of making the bank notes redeemable not only at Berlin but all over Germany, at least at the main branch offices of the Reichsbank, I was not doing it in my own interest nor in that of Hamburg, but I did it in the interest of Germany as a whole, and above all, in that of the value, or the valuation, of the notes of the Reichsbank.

I was very far removed, indeed, from any such motive as that imputed to me by Freiherr von Gamp, as though it were self-evident, the desire to make the most of the change for arbitrage purposes. Gentlemen, if we banks had not considered it entirely beneath us last fall to send gold abroad through the channels of the arbitrage business, the slight expense of bringing it from Berlin to Hamburg would not have been in the way. Neither can I place myself on

the standpoint of Herr Roland-Lücke, that the only thing we have to consider just now is the matter of crises, and in particular, the contingency of war. I trust, and I think it very likely, that we shall have to reckon on a period of tranquillity, which being the case, I will ask you to turn your attention once more for a brief period to what I have to say.

It is not true, gentlemen, as affirmed by Freiherr von Gamp yesterday, that making the bank notes a legal tender will not alter anything. And that is not what I said. All that I said was to the effect that the propensity of the public to hoard gold is not affected by the circumstance in question; in this respect nothing is changed. But no one will deny that, as things are at present, anybody who expects to receive a sum of money at any place in Germany besides Berlin has a claim to being paid the sum in question in gold. Henceforth, however, he will only have a claim to being paid in paper unless the Reichsbank finds ways and means of enabling a person to exchange the legally paid bank notes on the spot for gold. If the Reichsbank failed to do this, then throughout Germany outside of Berlin there would be a strange depreciation of the standard currency of the Empire. [“Quite true.”] If, then, what I propose can not be done, I must call your attention to the danger that would ensue from the circumstance that the banks located outside of Berlin would necessarily be compelled to try to get hold of the gold in order to supply the needs of their locality, for if the Reichsbank can not provide gold to the amount that the needs of trade may at any time demand, it will become the business of the local banks

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to do it. I should regard such a situation as extremely deplorable, involving a danger which Herr Fischel pointed out yesterday. Dealings in gold could no longer be carried on outside of Berlin in the same easy manner as under the existing law, and in spite of everything a more or less concealed premium on gold might in certain cases be present.

You will see from these few words, gentlemen, that the matter before us is one which, in my judgment, involves serious difficulties. I therefore once more submit to your careful consideration my proposition to the effect that the Reichsbank under the new régime of legal-tender paper shall assume the obligation of redeeming its bank notes in gold at its main branches at least, and I hope I shall be supported in this endeavor. In any case, in view of the responsibility imposed upon us by our chairman in the matter of our reply to this question, I can not but reiterate my misgivings.

The CHAIRMAN. Freiherr von Gamp is entitled to the floor in order to reply to this interlocutory.

Freiherr VON GAMP-MASSAUNEN. I believe, of course, that every member of this commission has a right to give local considerations due weight in connection with a proposed measure. I did not think it was fitting, however—and I claim the privilege of making such criticism—to bring local interests into play in connection with such an important question. The local interests may be legitimate, but I hold that in a question like this the broad general aspects of the case demand consideration above everything, and I must adhere to this belief in

spite of the assertions of Herr Schinckel. I have made no reproaches, but this is my opinion, such as I have now reiterated it.

Neither did I speak with reference to arbitrage—I would ask you to consult the stenographic report—in a sense implying that Herr Schinckel was advocating this measure mainly on the score of the advantage that would result to the arbitrage business. All I said was that this measure, as a matter of fact, would help the arbitrage business considerably by throwing upon the Reichsbank the expense which the banks outside of Berlin have to incur at present in the carriage of their gold.

I will say in conclusion that I have affirmed, and justly so, that the situation with which Herr Schinckel says we are confronted exists already; that is to say, that the local banks are already laboring under the disadvantage in question. If therefore the local banks in the interest of their respective places—and I can not see why I should begrudge them such action—are obliged to keep a considerable stock of gold, this condition by no means implies a change in the situation to the disadvantage of the large cities outside of Berlin, whether the bank notes are legal tender or not. On the contrary, these very places will profit greatly, for, if the bank notes are a legal tender, the liabilities of the great banks can in a large measure be settled by means of bank notes, whereas gold is required at present. I am therefore compelled to adhere to my opinion.

Doctor STRÖLL. You will not take it ill of me, perhaps, gentlemen, as a director of a private bank of issue, if I

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declare that this matter of making the notes of the Reichsbank a legal tender does not particularly appeal to me. But you may rest assured that I shall not endeavor to emphasize this position any further than is absolutely necessary. I must first of all gladly and frankly acknowledge that what the president of the Reichsbank said yesterday will amply suffice to raise our discussion regarding this matter to a higher level.

I think it is a good plan to discuss the question with reference to two distinct aspects; that is to say, to make two separate questions of it, in the way pointed out by Geheimrat Riesser, one regarding the effect in our own country, the other regarding the effect abroad. The probable effect in Germany is, gentlemen, extremely hard to predict. It is quite possible that the great majority of the people will take the position that all that has taken place is that a legal sanction has been given to a situation preexisting in fact. But of course there are other possibilities, too, none of which we can afford to ignore. There are certain apprehensions and doubts that we dare not suppress. It is possible that the preference for gold will only be increased by this measure and that a result may ensue which the Reichsbank does not at all contemplate. It is conceivable that the gold clause will have a chance to celebrate its unwished-for resurrection, as was the case when we were threatened with bimetallism. It is not impossible that there will be some sort of concealed premium and a hoarding of gold, and it is furthermore not impossible, as Herr Schinckel has pointed out, that the price of bills will vary in places outside of

Berlin. These are valid objections. The juridical argument for making the notes of the Reichsbank a legal tender, based on the theoretical assumption that a creditor may, as things are now, sometimes try to get the better of a debtor, does not amount to anything in my opinion. I endeavored repeatedly in the course of the hearings of the experts to obtain definite answers and information from the individual experts in regard to such cases, and I scarcely ever succeeded in getting a precise answer [exclamations of "Quite true"], nor do I think that the other gentlemen here would have fared differently. [Movement of approval.]

Indeed, I have been told, gentlemen, merely in private conversation, it is true, that only a solitary instance of the kind could be adduced, and for this it was necessary to go back to 1876—that is to say, a whole generation—where a Bavarian countryman of mine in the sale of a house in Munich refused to accept notes of the Reichsbank. At that time we dated our letters 1876; now we write 1908. If I could come across a Bavarian to-day who says he will not take the blue bills, I should have him arrested, gentlemen, and exhibited at the coming October festival. [Burst of laughter.]

We think a great deal of our north German countrymen, and we are especially fond of them when they come laden with blue bills. It never enters into anyone's head not to take them. [Laughter.]

There is no doubt, gentlemen, that the notes of the Reichsbank circulate, as a rule, without the least hindrance, and how popular these notes have become was

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evinced on the occasion of the introduction of the small notes of the Reichsbank. You have seen, gentlemen, how utterly mistaken we all were. We fancied that these notes would be very unpopular, that no one would like to take them, and that their circulation would remain very limited. Exactly the opposite happened. ["Very true!"] In north Germany the small bank note is already very popular, and people are taking more and more to it in south Germany also, and all this—as I have previously pointed out, particularly at the hearings of the experts—without any legal compulsion, simply through the great credit which the Reichsbank commands and the popularity which, as far as I can judge, it enjoys at the present time in every corner of Germany. [Movement of approval.]

In regard to the probable effect produced abroad, I must likewise say that it is extremely difficult to make any predictions. I am personally under the impression that there will be no lack of malicious remarks and expressions of mistrust. ["Very true!"]

I believe the outside world will not be quite so ready to abide by our contention that this matter of legal tender has long since been a fact in other countries. Foreigners will point to certain differences that exist between us and the outside world. They will say, "You see, our notes have already passed under the Caudine yoke of periodical forced circulation, while yours have not yet got beyond their virgin state." And they will say, "Such rich countries as England or France can indulge in a measure of this kind, but Germany, with its less firmly established credit, had better not try." All such arguments are

possible. Perhaps the foreigners will say: "You must remember that our country is a unit, while yours is a federal state; there is less centralization in yours. With us everything is more or less centralized in the great cities; you have a number of economic and political centers." In short, all sorts of arguments of this nature will be dished up. They may perhaps not be of a very impartial character. But when have our commercial rivals and our adversaries ever been impartial? We can not count on that. ["Very true!"]

One thing foreigners are sure to do, and that is to blacken us in one way or another, and just at this moment, when the financial reform is about to be carried out in the Empire, the mistrust of the outside world, especially if the work should drag, will not be easily allayed altogether. On the other hand, Germany may very properly, from a just feeling of national pride, pay no attention to what the outside world thinks of us and say: "Our situation is being strengthened; we are in better shape than we were a year ago, and we have not resorted to this measure when our financial troubles were at their worst, but only after we had overcome the main difficulties." Germany might well reply in this manner.

And now a word in regard to serious economic and political crises. All crises have this in common, that they excite mistrust, that mistrust produces a panic, and that, as a result of the panic, there is a great and sudden demand for currency, which has to be met if we are to make head against the panic. In this regard the experience of the United States in 1907 has been particularly instructive.

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And how about this matter of legal tender, gentlemen, in such a situation? Is the legal-tender quality of the bank notes going to help us then? In regard to this question I take pretty much the same position as that so ably represented by Herr Roland-Lücke, one in which we dissent in principle—several of us who have already spoken—from the opinions expressed by the president of the Reichsbank. If I understood him rightly, the president asserted yesterday that all that was needed in order to prevent crises was to let people have legal money, which legal money in future would be the bank notes of the Reichsbank. But here is the rub. For should there be a great panic—it may easily happen; this has been pointed out before—the people will not be content with the promise to pay with the paper token, but will ask for the solid, actual gold, and that in such a case, in spite of this quality of a legal tender with which the notes have been invested, the Reichsbank will not be protected against inordinate demands. Two distinct cases may present themselves. War may suddenly be at hand overnight, and it may be that for weeks and months people will move about in a dull leaden atmosphere of uncertainty until the individual conviction will grow apace that the final decision can come only through the arbitrament of arms. We must try to picture to ourselves what is likely to take place in this interval. It may happen, indeed, that the legal-tender quality of the notes will suffice to protect the bank—that is to say, the gold in its vaults—from something like pillage. It may happen, however, that it will not suffice. In this case the Reichsbank might be obliged

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to resort to extraordinary precautionary measures in order to protect the national gold treasure. And this is the only point in regard to which I do not altogether agree with Herr Schinckel, with whom I am otherwise completely in accord. For I, myself, apart from the considerations to which I am now referring, should be decidedly in favor of making the notes of the Reichsbank redeemable at all its principal offices. But let us suppose a situation to exist such as the one I have just imagined, and let us assume a condition like that to which Herr Roland-Lücke referred—a traffic in gold at frontier towns, etc. Then you will find, if legal means have been provided for making the notes of the Reichsbank redeemable in gold at the principal offices, that in one way or another the outside world will manage to lay hands upon the German stocks of gold. The Reichsbank will not be protected in that case from pillage, and if, after some weeks and months, a crisis should come on, we shall have a Reichsbank stripped of its resources in spite of this thing of legal tender. I have on previous occasions expressed my views relative to this matter and have even written on the subject. I, for my part, was originally of the opinion—the matter of legal tender did not enter at that time so much into public discussion, it having only recently been injected into our counsels—that it would be impossible to get through a great war without a resort to forced currency, and I hold that view still. I do not believe that we shall get through a European war without forced currency, and on this account I am of opinion that the preliminary stage of paper money circulating

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as a legal tender, even if it be advantageous in a measure with respect to the preservation of our gold, can not be relied on as a means of affording absolute security. People say that it is a difficult matter to introduce forced circulation, as it takes days and weeks to do it, for under our system of government there is no such thing as enacting a measure by imperial decree. I must say, gentlemen, that if I were a statesman at the helm, this fact would trouble me mighty little. I should simply decree forced circulation overnight; the Bundesrat might meet after that and later on the Reichstag, and let them grant indemnity. *Inter arma silent leges.* Unless this is done quickly, the Reichsbank will of course be exposed to every attack. And we can not afford at such times to lean too much on patriotism. I believe, in fact, that there will be some here and there who will seek to get hold of that precious article, gold, in the anticipation that they will later on be enabled to traffic in it, inasmuch as circumstances might bring about a premium on gold. This much, gentlemen, is at any rate certain: The Reichsbank's gold must be reserved for emergencies, sequestered and kept for national purposes, and this is all the more imperative, in my opinion, because the stock of gold in the Bank is not as large, for example, as that with which France went into the war of 1870. And in spite of its large supply, France could not avoid resorting to forced currency. I personally do not believe that we should try to wage a future war with irredeemable paper money of the Government, as some maintain. I believe, on the contrary, that our main support ought to be the Reichsbank and that we must wage war with irredeemable, or

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temporarily irredeemable, bank notes; that is to say, with paper money based on actual resources and not with paper money behind which there is no security. This is a fundamental difference [exclamations of "Quite true"], an enormously important difference with respect to our money standard, as well as with respect to the way in which we shall view the oft difficult situation in which we shall find ourselves and the possibility of our afterwards escaping from it. I do not think it is necessary, gentlemen, before this body of specialists, to proceed to an analysis of this vast difference, but I should be glad to do so if need be.

My esteemed vis-a-vis, Herr Fischel, expressed the opinion, among other things, that we might possibly escape the necessity of resorting to forced circulation even in serious crises. Others have spoken to the same effect. I do not consider Herr Fischel's view a correct one, and I do not believe that we can infer anything positive from the example of Russia. For, as far as I can see, all that Russia lost in the Japanese war was a couple of battles. We can not actually say that Russia was conquered. Financially it was not Russia who was conquered, but Japan. This is my firm conviction, and it was on this account, as we are all aware, that Japan was forced to accept terms of peace relatively so favorable to Russia. [Denial.] Our situation, gentlemen, would have been an altogether different one, a much more difficult and complicated one.

The most weighty arguments, gentlemen, have been adduced *pro* and *contra* in this matter of making the notes of the Reichsbank a legal tender. If a measure

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to that effect is to be enacted, then I should suggest, in the way of a guaranty, that when money is paid out of the bank the recipient shall in every case have the right to say whether he wants it in coin or in paper. There still remains the important question to consider, the one on which Herr Schinckel has laid stress, as to whether the Reichsbank should be obliged to redeem its notes in gold at all of its offices. This is a difficult matter to deal with. If we should happen to be in a situation similar to that in 1864 and 1866, and the Reichsbank were obliged to keep on redeeming its notes everywhere during the trying weeks before the outbreak of hostilities, when there was as yet no forced circulation, there would immediately be a diminution of our national stock of gold in the Reichsbank. Now, it seems to me that we might perhaps adopt a different course. As against legislative action, let us have administrative action. If we could obtain some sort of guaranty from the Reichsbank that in normal times the notes will be redeemed at all its branches with the minimum of delay and friction, I should, for my part, no longer have any misgivings in regard to the matter on which Herr Schinckel has laid stress, and should be willing to forego the stipulation relative to redemption outside of Berlin, in order that our policy of sparing the Reichsbank's gold reserve may not be thwarted.

How it ever entered the mind of Oberbergrat Wachler to use the word "vexation" as a fit way of characterizing the act of an individual who would like to have gold in exchange for notes of the Reichsbank completely

baffles my comprehension. For there can be nothing vexatious in a person's claiming what is his due, and we have heard from the lips of the most competent authority, the president of the Reichsbank himself, that the right to have one's paper money redeemed by the Reichsbank is a thing that, as a matter of course, is not to be tampered with. If I choose to exercise my right, how can I be said to be vexing anybody? I can not for a moment understand how Oberbergrat Wachler has come to this queer notion. That this is just the right moment, if it is to be done at all, to introduce the legal-tender quality of the bank notes there can not, in my opinion, be the faintest doubt.

The president of the Reichsbank has justly contended that any special law to this effect would only be calculated to excite the mistrust of the outside world, which we must by all means try to avoid, and I say, therefore, that such a measure should not be enacted either through an imperial decree later on nor afterwards through special legislation, but that now, when we are shaping the supplementary bank act, is just the right moment. I am decidedly of opinion that, if we are to have this thing at all, we ought not to miss the present fit and altogether favorable opportunity.

As regards the status of the imperial treasury notes, it is natural that there should be a diversity of opinion. For my part I am not fond of this token money, and my opinion is that the Reichsbank has been storing up these treasury notes not merely on account of monetary considerations, but also by reason of the unpopularity of this

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token currency. Just how we shall get rid of it later on is not as yet clear to me, for until the financial reform shall have brought about a more favorable situation in this country we can not think of eliminating the treasury notes. But one thing I wish to say to you, gentlemen, and that is, that as long as we have the imperial treasury notes—we have got them and there is no telling when we shall get rid of them—we are bound, for the sake of appearances and out of respect for the authority that is back of them, to invest these treasury notes with the quality of a legal tender. An obligation of the Imperial Government—and a treasury note is such—even if it is not based on tangible security (no one in Germany believes any longer in the myth of the Julisturm), can not be allowed to circulate on a lower plane as regards credit than an obligation of the Reichsbank. I think we ought to avoid this out of consideration for the authority which they represent.

And now permit me to say just a word—I shall not detain you long—in regard to the notes of the private banks. Their legal status is the same as that of the notes of the Reichsbank, but they have long been to a certain extent disqualified by the side of the latter by the regulation which prohibits their being accepted in the North German States in the payment of government dues and at railway offices. In the arrangement that was made this had to be agreed to. But if the notes of the Reichsbank were to be made a legal tender, then the notes of the private banks would be disqualified within the narrow bounds of their own country, where they have hitherto

been on a level with the notes of the Reichsbank and were to remain on a level in future. This would be quite a blow to the private banks of issue. I think it is going to be a very difficult matter to settle, and I am grateful at all events to the speakers who have expressed themselves in such appreciative terms in regard to the private banks of issue. The managers of the Reichsbank are no less complimentary, I must acknowledge. I mean, however, to press my views in regard to indemnity to be offered to the private banks of issue in the way Doctor Weber, Herr Peter, and others are demanding it. The nature of the compensation is, I believe, not a matter to be discussed at the present moment, the subject being excluded from the order of the day.

To sum up, I may define my position—which is that of some of the speakers who have preceded me—as follows: It should be left to the discretion of the managers of the Reichsbank, who are so well qualified to judge, to decide whether it is necessary to introduce the legal-tender quality of the bank notes, to determine whether the considerations of expediency that seem emphatically to demand it should be permitted to outweigh certain objections that exist on the score of principle. I am convinced, along with the other gentlemen, that in this difficult and weighty question our economic tribunal of last resort, the management of the Reichsbank, will come to a correct decision.

Mr. MOMMSEN. Permit me, gentlemen, to begin with a brief observation. The president of the Reichsbank sought yesterday to impress upon us the great responsibility resting upon us in the matter of our reply to the

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question which he is now placing before us in a form so entirely different from that in which it was submitted in the spring on the occasion of the hearings of the experts, and here I am compelled to say, however highly I appreciate the utterances of the gentlemen who have preceded me, that it is not altogether the right thing to deliver an opinion which, as Herr Roland-Lücke has well expressed it, in a way represents a seesaw. It is very difficult, I admit, in a case like this to weigh the pros and cons, but I do not believe that we can solve this problem by saying: "I am, indeed, against it; perhaps I am after all for it; let the president of the Reichsbank take the responsibility of deciding." I am not anxious to relieve myself of this responsibility, and I say frankly that if in the spring I was opposed to making the notes of the Reichsbank a legal tender, the reason was not because the situation at the time was less favorable than it is at present, but because I was actuated by broad considerations, which, of course, continue to exist to-day. It goes without saying that those who are intent upon instituting this legal-tender quality can properly be called upon to have regard for the matter of opportuneness in enacting their measure, and I can understand perfectly why those who believe in principle that the notes ought to be a legal tender were not in favor of making them such in the spring, but are in favor of it now. But I must say, gentlemen, that the whole question has a different complexion for me. I am willing to admit absolutely, gentlemen, that the situation in question—the condition of bank notes as a legal tender—virtually exists in Germany to-day. Now, one

individual may come and say: "Very well; the condition is practically such, so let us give to it the sanction of the law. Nothing will happen; everything will remain just as it was." Another will reason in this way, and logically, too: "Suppose the experts are all agreed that this condition practically exists now, and suppose we legalize it at one stroke, we can depend upon it that everyone who has not so carefully weighed the considerations that enter into the question, who gropes about—shall I say—still more in the dark in regard to this vexed problem than do a good many among ourselves, will fancy that he discerns in this change in the law some special intent; and it is certainly preeminently true in matters pertaining to the coinage and the monetary standard that no change should be made in existing conditions unless those who are in favor of a change are convinced that there is an absolute necessity for it."

Now, gentlemen, we are all agreed that the written opinions of the experts are not convincing in regard to this necessity, not even in regard to the semblance of such a necessity. I admit that the form in which the question was put had something to do with this. I am using this word "something" by way of a rejoinder to Geheimrat Riesser. For just as the question relative to the possibility of strengthening the stock of gold in the Reichsbank was not entirely excluded from our discussions, so did it enter into the opinions delivered by the experts, and they soon came to the unanimous conclusion that it would not be increased. The question of the usefulness and necessity of the legal-tender provision was then discussed in a general

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way, and in regard to this Doctor Ströll (I believe it was Doctor Ströll) has quite correctly observed that not one of the experts, after reiterated questioning on the part of the members of the commission, was able to adduce a specific instance where notes of the Reichsbank had not been accepted, and the very cases that were mentioned—I believe it was a Berlin banker who spoke of one instance or another—had nothing whatever to do with the question, gentlemen. For we shall certainly all be agreed on this, that whether we have the legal-tender provision or not, the demand for gold and its peremptory transfer from the coffers of the Reichsbank into those of private individuals, together with the hoarding of gold—all this may come at any time under certain circumstances.

It is my opinion, as I have stated before, that the provision in question will practically not effect any change. Whosoever there is at the present time who has no faith in the bank notes as they are—not a legal tender nominally, but a legal tender in fact—and demands gold instead, will continue to do so in future. But, as things are now—and this, in my judgment, is an important point in the consideration of this matter—the individual in question expresses his lack of faith to his debtor, and it will frequently happen—the experience of business men will support my assertion—that the two parties, in trying to come to terms, recognizing that gold is in general something rather difficult to procure, will at least arrive at the conviction that the notes of the Reichsbank, even if they are not a legal tender, are as good as gold. In future, however, gentlemen, if the bank note is a legal tender, the creditor will be obliged to accept it, and

if he has no faith in it he will no longer try to compel his debtor—as against him he is powerless—but he will go to the bank, which is the only place where he has a right to demand gold. And I am forced to ask whether in a time of general uneasiness that may happen to come the investment of the bank notes with the legal-tender quality might not produce a result just the contrary of that which we are intent on achieving; whether, instead of there being more gold in the Reichsbank, there will not in general be an increased outflow when a lack of confidence prevails.

It would be wise, gentlemen, to consider the measure under discussion not merely with reference to normal conditions, but in particular with reference to the contingency of severe crises. It is altogether uncertain, as you see, whether at such times the legal-tender quality of the bank notes, coupled with their absolute redeemability in gold, will affect the status of the Reichsbank favorably or not. Facts may bear out the one assumption or the other, but in my judgment just these doubts, which do not admit of an absolute solution one way or the other, ought by no means to be permitted to determine us to make any change in regard to the existing condition, which has maintained itself through thirty years of good times and of hard times—and indeed we have lived through some very poor years.

The question of the gold clause has been brought up in our discussions, gentlemen, and I believe Doctor Weber asserted that it would be practicable to devise some provision which would prevent the gold clause or render it ineffective. I am not at all sure that such an invasion of private rights could be justified, purely and simply, or

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that a majority of the chambers of commerce and similar bodies would be ready to pass resolutions indorsing any action of this kind. Freiherr von Gamp assumed, it is true, that there would be no difficulty in reaching an agreement in regard to this matter in the Reichstag, and I do not consider this impossible myself. One thing, however, is certain, gentlemen, and that is, that when we have made the notes of the Reichsbank a legal tender there will be many attorneys in the German Empire who, in spite of instructions emanating from the ministry, will be prompted by a vague feeling of uneasiness to ask themselves this practical question: "Am I not going to guard the interests of my client more effectually if I insist on payment in gold?" You can not blame the attorneys for this any more than you can blame a banker who, in view of an impending financial crisis, is intent on securing an increased supply of gold. His action, gentlemen, is not governed by considerations of personal interest, but he is in duty bound to execute the commission intrusted to him by another—that is to say, his client—to the best of his ability, and he ought to be satisfied with nothing less than the fullest measure of security that can possibly be obtained for a client. These are factors, I think, that have to be taken into account, and you know, gentlemen, that when the gold clause has become an ordinary feature in legal contracts it will, as a matter of course, affect the circulation of the bank notes and the stock of gold in the vaults of the Reichsbank.

There is one aspect of the subject which we are considering, gentlemen, that I should like to dwell upon. If at

the time of the introduction in the Reichstag of the bill relative to small bank notes anyone had had any inkling that the question of making the notes of the Reichsbank a legal tender would have to be considered before long or, indeed, at any time in the future, there would, perhaps, have been much more opposition to the introduction of these small bank notes. This much is perfectly clear, gentlemen, that if we are to introduce this legal-tender quality of the bank notes, then the small notes, now that we have got them, must be included or else we must get rid of them. I am convinced that it is utterly impossible to do away with them and I should regard a measure to that effect as entirely misdirected on the ground of the very considerations that led to their introduction. This has been my view from the outset. I consider these small notes—and I say it boldly—of much more importance to us than this matter of legal tender.

In order that I may not trespass too much upon your time, gentlemen, I shall refrain from touching upon the many little details that pass through one's mind in connection with this matter. It has been my purpose to present once more the objections to the introduction of the measure under discussion, in spite of my being perfectly aware that a decided change has taken place in the attitude of this body toward the question even in these last few months. There is one aspect of the case, however, upon which I wish to lay stress and which, I think, is a very interesting one. I do not propose to dwell here upon my personal views regarding the private banks of issue. It is very evident, however, that the moment we make

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any change whatever in the regulations relative to the notes of the Reichsbank the private banks of issue will come, of course—and I understand their position perfectly from the standpoint of their own interests—with all manner of claims for indemnity. And the moment we institute any change in these matters we can naturally anticipate the same sort of action on the part of the places that are at present discriminated against in the German Empire—discriminated against because they are at a disadvantage with respect to Berlin in regard to the redeemability of the bank notes—which, perhaps, are not satisfied with the existing situation, but which have resigned themselves to it and which, if no change is made, will without doubt continue to put up with it. They, too, will come with their pretensions. I must candidly confess, my standpoint being what it is, I secretly hope that this matter of indemnifying the private banks of issue on the one hand, and the local institutions on the other, may have the effect of causing the whole proposition to come to naught.

I do not propose to enter into any discussion regarding the private banks of issue. The kind of indemnity that Doctor Weber has suggested is quite practicable indeed, but I am not ready to believe that all the representatives of the private banks of issue are so modest in their pretensions as these gentlemen seated here around the table. I have reminiscences, in fact, of former Reichstag days to the effect that some pretty stiff demands were made—a matter referred to in to-day's debate—as, for example, in the direction of compelling the authorities of the north Ger-

man States to accept the notes of the private banks of issue when tendered in payment of government dues, which would entitle these notes to a privilege not enjoyed by those of the Reichsbank, and it is probable, of course, that these demands will grow.

In regard to the proposition to make the notes of the Reichsbank, in case they are made a legal tender, redeemable in gold at the main branch offices, I must admit that consistency requires that if we are to make the notes a legal tender we must devise much ampler means for their redemption. But I hold, on the other hand, that if we are really intent upon achieving the object which is the aim of this whole provision—to strengthen our Reichsbank for facing a crisis—then we can not afford to go so far as to keep a supply of gold at all the main branches sufficient for redeeming the notes. The only alternative would be (if the measure under discussion is adopted) to enact a provision making the redemption of the notes obligatory but allowing the Reichsbank a suitable interval of time—as brief a one, of course, as possible. In this way, I say, we shall at least be making it the duty of the bank to redeem without at the same time encouraging the withdrawal of gold at the places in question.

The suggestion has been made, gentlemen—I believe it was by Professor Lexis—to amend article 18 of the coinage laws so as to make the notes redeemable in gold instead of current German money. I can not see any difference. What is current German money is set down in the coinage laws. Above 20 marks it is gold, and there is no doubt in my mind that the 20-mark note can legally be

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redeemed in silver also. I consider this no misfortune, but there is this to be said, that as long as this provision exists in regard to current German money we ought not for a moment to consider the question of raising the silver limit above 20 marks, so that it may not be rendered possible to redeem larger notes in silver.

Now, as to the imperial treasury notes, I can not see, gentlemen, that they have anything to do with this matter, and I must say that I was surprised to see Doctor Ströll—I believe it was Doctor Ströll—come forward with the proposition that if the notes of the Reichsbank are to be made a legal tender the imperial treasury notes be likewise invested with that quality. I can not see any reason for this, for there is an immense difference between a bank note secured by the gold in the bank and a treasury note which represents merely a promise to pay, even if it be on the part of the Imperial German Government. In my opinion there is no reason whatever for conferring upon these treasury notes of the German Empire the quality of a legal tender.

As regards the treasury notes of small denominations, I must say quite plainly that we can not afford to spare them from our circulation. ["Very true."] I must confess that the 10-mark treasury notes have not been quite as popular as we anticipated. This is largely due to the fact—at least I am pretty sure of it—of their horrible appearance. ["Very true."] And if we had only made these 10-mark treasury notes nicer to look at and handle, we should probably have succeeded much better with them. The 5-mark treasury notes are not much handsomer, but

they are a bitter necessity for our business, for, if I am not mistaken, the demand for these 5-mark notes has at all times been a pretty good one.

A VOICE. But we have got the talers.

Mr. MOMMSEN. No, Geheimrat von Gamp; the taler is surely not going to work any better. And you have been doing some pretty mischief with the taler; I can tell you that right now. [Exclamations of approval and of protest.] We are not bound to discuss this any further, but as far as the 5-mark and 10-mark notes are concerned they have nothing to do with the matter. It is absolutely necessary to satisfy the demand for small notes. We can not think of doing away with them, and if we should proceed to get rid—as I trust we shall at one time or another—of the 120,000,000 marks which save us so and so much interest every year we shall have to introduce some other paper money, and in the end we shall have to get down to the 5-mark notes of the Reichsbank, which we are all agreed would not be to the advantage of the Bank.

To sum up, my position with respect to the main question is that I have most decided misgivings, based upon general grounds, as well as upon considerations of an economic nature, in the matter of making the notes of the Reichsbank a legal tender. I should hesitate not merely because of the impression that might be produced abroad—which I do not underestimate, but which, I believe, we may regard as something that can in a measure be counteracted when the measure has once for all been introduced—but because I believe in preserving the old legal

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status which has been found satisfactory for more than a generation.

Count KANTZ. I regard the problem of the financial equipment that shall enable us to face crises and the contingency of war as one of the weightiest of problems. Let us imagine for a moment, gentlemen, that our army is being mobilized, and then proceed to estimate in a general way the financial needs of the situation. We shall find that we shall have to deal not merely with the cost of putting our army in the field and maintaining it, but also with the suppression of those financial ills which even now weigh upon the German Empire. We are laboring now under a deficit of hundreds of millions and this deficit will have to be covered in a time of war also. We have to reckon, moreover, with the fact that the imperial revenues will be very materially reduced, that customs receipts will diminish with the crippling of trade, and that, with the prostration of business, the stamp revenues will decline; that, in short, the main revenues of the Imperial Government, if they continue to flow, will come in much less abundantly. A political organism that rests upon indirect taxes is much worse off in a critical time than one supported by direct taxes.

As for what has been uttered in this discussion regarding the resources of the country and the adequacy of the financial means that would be placed at the disposal of the Government in time of war, I must say that I am rather skeptical about this matter. How was it in 1870? Immediately after the declaration of war the Government put out a loan, the bonds being placed on the market at a very

moderate figure, but the subscriptions turned out so meager that there was no idea of being able to meet the necessities of the Government in this manner. The public kept back in a very cautious spirit and it was not until some victories had been won that the capitalists came forward and placed their money at the disposal of the Government, and indeed they were not slow with their complaints when, as a result of the successful issue of the campaign, the rate at which the bonds were offered was advanced.

We have therefore no assurance, gentlemen, that in the event of war large sums of money would be placed by the country at the disposal of the Government, and we must consequently try to devise some other means of making sure that the money will be forthcoming. But I consider it of still greater importance that the stock of gold in the Reichsbank shall be protected against too heavy a drain, and all the more so because the issue of the war may possibly depend upon the greater or less supply of money. I have therefore been of opinion from the start that we ought to make the bank notes a legal tender. I consider this not merely a desirable but an absolutely necessary means of guarding the gold in the Reichsbank in such a way as to provide the most essential remedy against the premature exhaustion of our resources.

If it be argued that this is merely a matter of legally sanctioning a preëxisting condition and that the bank notes are now universally accepted, I can not regard the contention as altogether substantiated. I am ready to believe that the public will be astonished when the law in question is enacted. People will ask: "By Jove, are not

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the bank notes a legal tender already? What does all this mean?" Yes, gentlemen, but there is a possibility that just at a critical time, in case this measure is not adopted, people will come and ask for gold, and the German is not under all circumstances so patient or so sensible as that American who, as one of the speakers related today, accepted the situation, saying, "All right; if there isn't any gold, I suppose I shall have to wait and see how things are going to turn out." I fear that this will not be the case with us here in Germany and that people will naturally be much rather inclined to resort to the means of coercion which the law places at the disposition of the creditor, a way of doing that may lead to the most serious complications.

I am persuaded that this is not merely a matter of sanctioning and legalizing an actually existing condition, but that we have to deal with a new measure which has to be adopted at all hazards.

And as for the assertion made by some of the speakers to the effect that the promulgation of the law in question would result in an uneasy and panicky feeling, I cannot see why there should be anything in the nature of such a panic, for in every country, at least in every country that is on a high plane of civilization, and particularly in France and England, as has been repeatedly pointed out to-day, there is a law of this kind, making bank notes a legal tender, and therefore I can not believe that mistrust and panic will ensue if we resort to such a measure.

The only question to be considered, then, is as to whether this law should not go into effect on January 1, 1911, or

whether we should fix an earlier date. I should not consider a special law advisable, as that might lead to some uneasiness. I believe the proper thing would be to insert a paragraph in the bank act to the effect that the bank notes are to be a legal tender from the date of the promulgation of the act. This is a pressing necessity, gentlemen, and we can not afford to wait until January 1, 1911, that is, two years, for no one can tell what is going to happen in the meanwhile. I think we ought to draw up the new bank act speedily and submit it to the Reichstag in order that it may pass it as quickly as possible and that this provision in particular may go into effect at the earliest possible date.

Being nothing more than a layman in the realm of banking, I can not be expected, gentlemen, to enter into a detailed discussion of the matter before us in the way the speakers who have preceded me have done, with whom it would be presumptuous on my part to attempt to argue in this field. I thought, however, that I might be permitted to present the reasons, based upon general considerations of a political nature, that induce me to urge this measure.

I will therefore only say in conclusion, with reference to the private banks of issue, that I recognize the likelihood of our hurting their prestige to some extent and of our inflicting a certain loss upon them if we make the notes of the Reichsbank a legal tender, but that I feel assured that some way will be found of indemnifying them. The loss they will incur will after all be slight, and if Herr Mommsen asserted a moment ago that this sort of indemnity would probably be asked for on a rather ample scale and that, in

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fact, no one could tell what dimensions such demands for compensation might reach, all I have to say is that we are not bound to recognize them. When we have once got a law, then we have something to stand upon, and all we have to say to the banks that bring forward their claims for indemnity is, "We offer you so and so much, and if you are not satisfied we can do nothing for you." [Laughter.] It is my opinion, gentlemen, that there can be no fatal objection on this score, neither did Herr Mommsen intend to have the objection which he brought forward regarded as such.

Allow me, gentlemen, to sum up briefly by saying that I trust the proposed measure will be approved, that it will soon be enacted into law, and that it will speedily be put in operation.

Mr. KAEMPF. It is not sufficient, gentlemen, to maintain, as Count Kanitz has done, that it is absolutely necessary, in order to provide for every possible contingency, to make the notes of the Reichsbank a legal tender, but it would have been agreeable to us to have heard from Count Kanitz in what way the legal-tender quality of the bank notes is calculated to protect the bank's stock of gold in the event of an economic crisis. As Count Kanitz has not chosen to enlighten us in regard to this matter, I shall take the trouble to explain very briefly in how far the legal-tender quality of the bank notes tends to affect favorably the stock of gold in the Reichsbank, especially in a time of mistrust and uneasiness, and I am persuaded that it is from this standpoint only that the whole question can be considered and answered.

B a n k I n q u i r y o f 1 9 0 8

The thing that affects the Reichsbank and the monetary situation generally in critical times is the fear which takes hold of people and impels them to try to get hold of gold in place of paper money; that is to say, bank notes. A case is constantly adduced where, according to the statement of the experts, the banks and bankers, as well as other individuals, fearing that the bank notes would not be accepted in payment, provided themselves in time with gold and subjected the Reichsbank to an excessive drain. But the apprehension that the bank notes may sooner or later not be accepted is only part of the anxiety that seizes the people. A further fear is the apprehension that there might be a resort to forced circulation, in which case the bank notes would actually become a depreciated currency. This fear plays a very important rôle in connection with the demands upon the Reichsbank in critical conjunctures.

The question is, then, which part of the general uneasiness is the greater—the fear that the bank notes might become a depreciated currency or the fear that the bank notes, by reason of their not being a legal tender, might occasionally be refused when one has to make a payment? I believe that the first fear is by far the more acute. If this is the case, however, then the investment of the notes of the Reichsbank with the legal-tender quality is not calculated to prevent the mischief arising from the dread of a forced currency, and I have been surprised to see that just those of the gentlemen present who feel sure that in the event of a crisis it would be necessary to decree

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forced circulation are so strongly in favor of making the notes of the Reichsbank a legal tender.

If these considerations have led me to conclude that the advantages resulting in case of a crisis from the legal-tender quality of the bank notes are not so great as has been claimed and maintained in our discussions, I have to ask myself in how far the circumstance that the notes are a legal tender may be mischievous in normal times. In regard to this, I am on the whole in accord with the opinion expressed by Herr Roland-Lücke and Herr Mommson. I hold that, as far as normal times are concerned, the old maxim *quieta non movere* applies in this matter.

The state of the law in Germany in regard to bank notes is, as a matter of fact, something with which the great mass of the people is quite unfamiliar ["Very true"], which indeed is in line with the remarkable ignorance of the German people in regard to questions concerning the coinage, I myself having heard the most fanciful views expressed by persons presumably competent to talk on such matters. Only recently I had to argue with a gentleman who was unwilling to believe that the Reichsbank is obliged to redeem silver fractional currency in gold when the amount presented exceeds the sum of 200 marks. This is explicitly stated in the coinage laws and can not admit of any possible doubt. The same ignorance exists with respect to the bank notes. No one dreams of refusing the notes of the Reichsbank; nobody asks himself whether he is bound to accept the notes in payment. Everybody takes them simply as a matter of course.

I can not see, therefore, that any advantage would ensue in ordinary times from the fact that the notes of the Reichsbank are a legal tender. On the contrary, it is easily conceivable that the introduction of the legal-tender quality, if it is to take place now, might lead to mischief, although I do not pretend to say that such a result is inevitable. The evil effects that might arise would be due to the circumstance that in the outside world, as well as in our own country, it would become manifest that some sort of an innovation had taken place, and that unfavorable inferences might be drawn hence at home and abroad, which might lead to the appearance of the gold clause and similar things that, in my opinion, ought by all means to be guarded against in the interest of the public welfare.

We are certainly confronted by a very weighty problem—a question of conscience—when in the midst of our public duties we are told: “This measure which is under discussion is absolutely necessary on high grounds of economic policy.” We have seen the same thing in the case of the small bank notes as well as in the case of the raising of the per capita quota of the fractional coins from 15 to 20 marks. The conditions in these two cases were in my judgment less intricate than those which present themselves here. [“Very true.”] Here we have to deal—those of us who believe in making the bank notes a legal tender, as well as those who believe that this would be harmful to business in normal times—with mere possibilities. Those who are in favor of making the notes a legal tender on the ground of the advantage that would result in critical times can not assert

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with absolute positiveness that such a measure would in itself be sufficient to avert a crisis, and just as little am I in a position to assert with absolute positiveness that the introduction of such a measure would lead to mischief in normal times. We can only say, on either side, that we presume or that we believe that such and such a thing will happen.

Under these circumstances, I have to say that I concur in the view expressed by Herr Roland-Lücke. I can not conscientiously advocate the introduction of the legal-tender provision, but at the same time I can not make up my mind to oppose the measure when it is urged by those upon whom the responsibility chiefly rests. This being the standpoint which I have adopted, I have to say that I should refrain from opposing the measure only on condition that it is declared anew on this occasion in unequivocal terms and absolutely made certain that there is to be no tampering in any way whatsoever with our gold standard. Above all, we must have a renewed assurance that all notes of the Reichsbank are redeemable in gold. It is also essential that we be assured that every proposition will be rejected aiming at a raising of the payment capacity of silver. And finally we must have a guaranty that nothing will be done that will tend to cause the bank notes to depreciate.

I shall refrain from discussing these points more closely in order not to touch upon questions which it is neither necessary nor desirable to bring up at the present moment. But only on the assumption that the conditions which I have mentioned will be realized could I be

prevailed upon to go so far as not to oppose the legal-tender proposition.

There are still some subordinate points to be considered, which, however, are of little weight by the side of the main issue.

One of these is contained in the proposition submitted by Herr Schinckel to the effect that the Reichsbank notes shall be made redeemable at other places than Berlin in ampler measure than the law at present provides. According to the existing regulation the notes are redeemable in gold in the larger cities outside of Berlin to the extent that the stock of gold on hand at the particular place permits. Herr Schinckel would like to make this provision broader. I must say that I consider Herr Schinckel's proposition in itself fully justified, but I can not see that this question is in any way affected by the matter of the legal-tender provision. The two questions ought to be considered entirely apart. ["Very true."] At present when the bank notes are not a legal tender, they are redeemed in the way the existing law prescribes. Making the notes a legal tender would not alter the situation at all. I believe, however, that the Reichsbank can very well afford to be so accommodating in its treatment of the places outside of Berlin as to make them feel that they enjoy, so to say, equality before the law. It might become quite a serious matter, and the cities outside of Berlin might be placed in a very disadvantageous position if these things are not managed with the utmost circumspection and in a way best calculated to avoid friction. No one, indeed, has ventured to dispute this.

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The second point is the question of the private banks of issue. I consider these banks, gentlemen, very important factors in our economic development, as well as in our circulation, and I believe that, since the private banks of issue that survive have so thoroughly demonstrated their usefulness, there is no reason for discriminating against them anew by making the notes of the Reichsbank a legal tender and at the same time withholding that quality from their bank notes; and that, if there is no possibility of placing them on an equality with the Reichsbank in this respect, they will be entitled, and indeed compelled, to demand some equivalent in this regard in the way of indemnity, in order that the banks which still exist may continue to exist.

Coming finally to the question of the imperial treasury notes, I must say that I do not care to waste many words on them. But, since so much has been said on the subject, I suppose I have no right to withhold my opinion. I look upon the treasury notes as simply a blemish in our bank and coinage laws. I beg you just to say to yourselves: "There are in all 120,000,000 marks of imperial treasury notes, of which about one-half is at present in circulation, while the other half is in the vaults of the Reichsbank." I believe the proportion will change in such a way that there will be perhaps 30,000,000 marks in the Reichsbank, which is needed in order to provide the various banking institutions with treasury notes, and 90,000,000 marks in circulation. Now, the status of the 30,000,000 marks will certainly be a very curious one, inasmuch as they are considered a protection for the bank notes, while they them-

selves, as a matter of fact, have less of a security back of them than the bank notes which they are intended to protect. This is indeed an extraordinary position that is thus assigned to the treasury notes. But here, too, the best counsel would be: "Let this question alone. Let this relic of nearly forty years' standing continue to exist in peace; it is not going to hurt anybody." If you want to get rid of them, you will have to wait until we can again get gold as plentifully as hay without having to borrow it. It will be time then to think of doing away with the imperial treasury notes. It is my opinion that we ought to keep this question out of our discussions. I see no reason why we should break our heads over it.

Gentlemen, I have explained my views to you, views which are at variance in many respects with those that have been expressed here and which differ, I am aware, from those of the president of the Reichsbank. But I believe that we are assembled here in order to express our opinions without any reservation, and I have thought it my duty to act accordingly.

Doctor SCHMIDT. We have heard a remark by one of the speakers to the effect that if the opinions of the experts were by a considerable majority against making the notes of the Reichsbank a legal tender this may perhaps be ascribed in part to the circumstance that the gentlemen at the time were still under the influence of the events of the winter and may possibly therefore not have viewed the question from the same standpoint as we are doing here. There was one expression of opinion on the part of the experts that particularly astonished

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me, especially as coming from experts who stand very high in all that relates to financial questions. They are opposed to the measure in question on the ground that nothing would be gained by altering existing conditions, being convinced that, inasmuch as payment in bank notes has become the usage in business, a court could never be found that would regard a payment in bank notes as not fully discharging an obligation. The opinion of these gentlemen means therefore just this: The law indeed does not confer the legal-tender quality on the bank notes, but the business world is so permeated with the notion that they are a legal tender, in other words, the usage has become so universal, that no court would venture to place the written law above the unwritten law. This took the ground from under the theoretical argument to the effect that payment in bank notes in the case of interest on mortgages and of house rents would entail serious hardship on debtors. For me, gentlemen, this is conclusive: If the public consciousness is so pervaded with the idea that the state of the law is such as to recognize the bank notes as a legal tender, then I think it is the duty of the lawgiver to seize the first opportunity to incorporate this view of the law, which is rooted in the public consciousness, into the actual code, or, in other words, to give it legal expression. This opportunity is afforded by the supplementary bank act in connection with which the measure can be enacted without causing any stir. I think it would be a mistake to make a special act of government out of a measure which does nothing more than declare that an actually

existing situation is invested with the sanction of the law.

The experts base their objections on two grounds. One is the bad impression which a measure of the kind would produce abroad. I can not quite comprehend how the enhanced value of the notes of the Reichsbank, which they certainly acquire by being invested with the quality of a legal tender, could possibly affect our monetary standard, considering that the matter of the redeemability of the notes remains precisely as it was. The outside world has no right to object if Germany invests her bank notes with the same quality with respect to a tender of payment which the notes of the Bank of England and other banks have all along possessed. Against that unfounded mistrust, to which Germany is subjected in many ways and which she has experienced to such an extent in recent times, we are strong enough to protect ourselves, and I believe that our dread of the opinion of the outside world is often exaggerated. Herr Fischel pointed out yesterday that if such an unjustified mistrust should be engendered abroad the Reichsbank would be able to make use of its stock of foreign bills to counteract effectually any hostile movements bearing upon the rate of exchange. That making them a legal tender might cause the notes of the Reichsbank to be less popular in the Empire, with the result that more gold would be drawn into circulation and the Reichsbank thereby weakened, is a gratuitous assumption. Although it may be very difficult to demonstrate numerically just how the legal-tender quality of the bank notes would have a favorable effect upon the stock of gold in the

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Reichsbank, I am nevertheless convinced that such an effect can be looked for.

Even in normal times every intelligent merchant makes it a point to have some sort of a cash reserve, and it is natural that he should lay it up in legal coin and not in Russian or Italian bank notes, or, in other words, make it consist of money that is a legal tender. It may often be the case, therefore, nowadays, when the bank notes are not a legal tender, that such reserves are preferably kept in the shape of gold, as the only legal tender. This evil would disappear if the notes were made a legal tender. We may also assume that debtors who have very strict notions of honesty and employers of labor similarly scrupulous in their dealings feel a sort of repugnance to paying in money that is not a legal tender. I can easily imagine a strictly honest employer giving instructions to his cashier to pay only in legal currency, and such action must, of course, tend to weaken the stock of gold in the Reichsbank, that is to say, to divert gold from the Reichsbank into the channels of circulation.

How the investment of the notes of the Reichsbank with the quality of a legal tender could have injurious results is, after the statements of the experts and the expression of views which we have heard to-day, in reality hard to understand. What has been said here furthermore in relation to the notes of the private banks is to the effect that this very act itself of making the notes of the Reichsbank a legal tender will cause the notes of the private banks, which retain their previous status—that is to say, are not to become a legal tender—to undergo a sort of

depreciation. From this it is to be inferred that you are all of opinion that if the notes of the Reichsbank are made a legal tender their intrinsic value, their value in circulation, will practically be enhanced, and if this is the case it may of course be assumed that they will be used more extensively and will serve—I am speaking now only of tranquil and normal times—to protect the stock of gold in the Reichsbank.

I believe, therefore, that it is absolutely necessary to convert the actually existing situation into one sanctioned by law, and I would urge most insistently that on this occasion the matter of indemnity be dropped. Herr Fischel spoke yesterday in favor of the enactment of a special clause relative to the small bank notes, specifically the twenty-mark notes, providing for their redemption in gold. The proposition of Professor Lexis would appear to serve precisely the same purpose, in that it provides that in place of the words “in current money” the words “in gold” shall be inserted in the bank act. It would furnish a sort of counterpoise to whatever unfavorable impression the legal tender provision might be calculated to produce if we should declare explicitly in the supplementary bank act that the notes are redeemable not in current German money but in gold.

An extension of the existing obligation to redeem the bank notes appears to me very objectionable and is, I believe, altogether uncalled for. I see no reason for apprehending that the provincial towns will be placed on an inferior level. It has already been pointed out what a drain may actually be imposed upon the Reichsbank

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by the withdrawal of gold in the border towns. As a matter of fact, in the existing state of the law the Reichsbank has at all times been ready to pay out gold or to give gold in exchange for other currency as long as the demands were legitimate. I have never heard anyone complain that his request had not been granted. The apprehensions of Herr Schinckel appear to me quite baseless from a practical standpoint. Various members of this commission have urged the advisability, in declaring the notes of the Reichsbank a legal tender, of wording the clause in precisely the same way as is done in the English bank law, it being declared that the bank notes are a legal tender except in the case of payments out of the bank. At present, if a man in Hamburg or in Frankfort has to get 1,000,000 marks in coin, he is not going to have 1,000,000 marks in advance in his safe in bank notes, but he will have a credit balance in the Reichsbank subject to draft and he will accordingly present a cash check for 1,000,000 marks on the Reichsbank. He is not going to carry the million in bank notes to the Reichsbank and demand gold in exchange, but he will present the check and demand payment, which, in accordance with the provision in question, has to be made in gold. This situation, it is true, might be considered as involving a certain drawback in that the Reichsbank might practically be obliged, perhaps, to maintain in every city in which people have large credit balances a corresponding supply of gold. Still, as regards the legal obligation to redeem the notes in the larger provincial cities, I do not see the need of a provision to that effect. I believe, too, that

Herr Schinckel will agree with me that the customary way of doing is not to take bank notes and ask to have them exchanged for gold but to go about it by means of a deposit account. I believe therefore that we need not attach any weight to these objections.

The question regarding the private banks of issue will, I trust, be solved to the satisfaction of all along the lines indicated by some of the speakers who have addressed us. I come now to the matter of the oft-abused imperial treasury notes and I am glad to see that Herr Mommsen has also found them quite attractive and has not judged them quite as harshly as they have generally been judged, and that President Kaempf pronounces them merely a blemish in our coinage system. They may be that, but they are in reality a pretty good sort of currency, as long as they are not lying in the Reichsbank, where they hardly belong, to be sure. I believe, however, that the Reichsbank will perhaps succeed in keeping the whole of this 120,000,000 marks in circulation, room being made for them by the withdrawal of a like amount of gold crowns, which are a very expensive currency.

I shall say once more, then, that it is my conviction—I must repeat that I have reference here to normal times merely—that it is in the interest of business to legalize the actually existing situation by making the bank notes a legal tender.

We should not leave out of sight, of course, the considerations on which the president of the Reichsbank dwelt yesterday, considerations which we must regard as decisive in framing our conclusions.

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Herr Roland-Lücke expressed a doubt as to whether the investment of the notes of the Reichsbank with the legal tender quality would actually produce the desired results and he spoke of three sources of danger regarding the stock of gold in the Reichsbank in case of an impending crisis. In the first place, he says, there would be this mistrust on the part of the outside world, which, if a crisis appeared to threaten and there was a prospect of political complications, would try to withdraw its loans, credits, etc., from Germany. I admit that this is the case, but I can not see why it should not happen to the same extent whether the bank notes are a legal tender or not. Indeed it might even take place to a much greater extent in the absence of this legal-tender regulation; it is certain that nothing would be gained by not having it. A second source of danger, he says, would arise from the fact that timid people in Germany might have a notion that it is safer to keep twenty-mark pieces in a stocking than to let them lie in the bank. But this would in any case be but an insignificant fraction of the population, one that is hardly worth considering, and these people would do precisely the same thing whether the notes of the Reichsbank were a legal tender or not. In both of these cases then, it appears to me, nothing depends upon whether we declare the notes to be a legal tender or not. In the third place we have to deal with that intelligent class consisting of the managers of the great banks, the heads of the large commercial houses, the big manufacturers, and others, who, when a crisis appears to be impending, find it necessary to provide

themselves with a stock of currency. Here we should be confronted with the situation which Herr Schinckel, I believe, described yesterday. The actual advent of an acute crisis is usually preceded by a time in which a crisis may be said to be brewing. At such a time the banks will endeavor to prepare themselves by gradually laying in a supply of gold in their vaults for fear of not being able to meet their liabilities by paying in currency that is a legal tender. In case then that the bank notes are not a legal tender, the banks, manufacturers, and big merchants, in short all who have creditors whose demands have to be met, will exert themselves to store up more or less gold, saying to themselves: "Until now I have been able to pay in money that is not a legal tender and for years I have been in the habit of paying my employees and other creditors in such money, but now times are beginning to get critical and they may perhaps come to me and say, 'No, sir; the thing you are giving me is no legal money, you have got to give me legal money.'" And so prudent and rational people will prepare themselves for such a contingency by taking gold out of the Reichsbank—gradually and cautiously—so as to keep clear of a situation where they should be obliged to pay in money that is not a legal tender.

I believe that the objections which Herr Roland-Lücke finds against making the notes of the Reichsbank a legal tender ought to have no weight whatever. The first two factors would present themselves in precisely the same way whether the notes are a legal tender or not, and under the third assumption the legal-tender regulation would,

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according to any rational deduction and the logic of facts, have decidedly the effect of sparing the gold in the Reichsbank, and it has been our main object, I believe, to find means of strengthening the stock of gold in the Reichsbank, as far as possible. We should leave nothing undone in this regard, and in order that we might be financially equipped to face a crisis, we ought to do our best to get as much gold as we can from abroad and from our own midst and store it up in the Reichsbank. I feel sure that we can and ought to reach the point where two billion marks of gold are stowed away in the vaults of the Reichsbank. The main thing will always be to make the stock of gold in the Reichsbank as big as possible so as to be able to meet all demands that may arise.

Mr. SINGER. Herr von Gamp, if I understood him right, expressed the fear that a law making the notes of the Reichsbank a legal tender might jeopardize our gold standard, and he declared that his support of the measure would be contingent on the assurance (I can not recall the precise tenor of his utterance) conveyed in an explicit legal declaration, or in some other way that would render the obligation binding, that no innovation whatever would be made in this regard. I consider this apprehension groundless. I believe, on the contrary, that the stability of the gold standard will only be further assured if the notes of the Reichsbank are made a legal tender, inasmuch as the issue of the notes is based on the gold standard and they are secured by a specific gold reserve set apart for their redemption. It seems to me, therefore, that we may as well dismiss this fear. I find myself in the

curious situation, one none the less agreeable, however, of being able to subscribe in toto to what Count Kanitz has said, in the same way that I consider the last speaker, Doctor Schmidt, to have shown in an absolutely convincing manner that the measure making the notes of the Reichsbank a legal tender will prove a salutary one.

Let us see, gentlemen, just how the whole matter stands. In my judgment the question is of no importance whatever as far as our domestic situation is concerned, the bank notes being everywhere accepted without hesitation and looked upon as a full-value legal tender. I do not know by experience of a single case where anyone said: "I can not take bank notes, because they are not a legal tender." The assumption that the enactment of the provision in question will tend to make the public lose faith in the redemption of the notes does not appear to me to be borne out in any way by the statements that we have heard respecting the matter. The public and the business world will simply say: "We have always looked upon the notes as a legal tender, and declaring them to be such by legal enactment is not going to alter the situation." Nobody, I am sure, will step forward and declare that he has not been acting right in accepting the bank notes, and it will not enter anyone's head to imagine that the notes are no longer as safe as before; that is to say, that there is no longer the same assurance that they will be redeemed now that their quality as a legal tender—something which they have all along possessed in fact—is established by law. If there are any particularly nervous people who will feel some anxiety in this regard, they will soon be convinced

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by the course of events that their fears are groundless, for the new provision does not affect the matter of the redemption of the bank notes. If anyone, perchance, should feel an irresistible desire to carry his notes to the Reichsbank and ask to have them exchanged for gold, he can do it. He will get gold for them, and it is likely that the very next day, by which time he will undoubtedly have found out that it is easier and more convenient to keep paper money and make payments with it than is the case with the metallic cash, he will reconsider the matter and henceforth take bank notes again whenever he wants a considerable sum of money.

The real importance of the whole question is in connection with the attitude that the outside world is likely to assume toward the proposed measure. A number of the speakers, however (and I believe they are right), have assured us that as regards the unfriendly criticisms and malicious assaults that every now and then are leveled against us in one foreign country or another—and we here sin just as badly with respect to the outside world—we shall continue to be exposed to such attacks, whether we make the bank notes a legal tender or not. I, for my part, do not believe—I do not pretend, of course, to speak as a person specially qualified—that the credit of the German Empire could anywhere be injured by the fact of our having declared the bank notes a legal tender. One might perhaps argue, indeed, that the contrary is likely to take place. It may be that foreigners will conclude that those who have a decisive voice in determining the action of the German people have such confidence in

the financial strength of the Empire that they proceed quite fearlessly to make the notes of the Reichsbank a legal tender. I actually can not see, gentlemen, why we should be called upon to consider what sort of reception this may be likely to have abroad.

There is one thing I should like to lay stress upon. It would certainly be very strange if we, here, who look upon the Reichsbank as the financial backbone of the Empire, and all of whom have the greatest confidence in the management of the Reichsbank—I am happy to share in this feeling—should have a desire to restrain it in the exercise of its powers. In saying this I assume, of course, that the principle of the gold standard will be strictly adhered to. If the permanence of the gold standard is to be assured, I must say it seems to me rather queer that we should be willing to weaken the trust in the notes of our Reichsbank by declaring that, while we absolutely need the notes and have the utmost faith in them, when it comes to granting them that which ought still further to add to their safeness—the quality of a legal tender—we can not afford to do it. This involves a contradiction which is not based in any way on the facts in the case and which can not be reconciled—pardon me, gentlemen, if I say so—with the enthusiastic expressions of confidence that have been heard in this body. I do not think we ought to allow ourselves to be guided by such apprehensions.

The next question is, What is the most appropriate time for taking the proposed step? I agree fully with the gentlemen who have declared that it would not do to

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make this measure appear like a prime act of the Government, to put it forth as something great and embody it in a special law. I believe that the renewal of the bank charter, which is near at hand, will offer an excellent opportunity for disposing of this matter. The provision in question may be incorporated in the act, and I do not think there will be much fuss over it here or abroad.

While I can declare that I am on the whole in favor of the proposed measure, I should like to say a few words in regard to some of the individual points.

I take it to be a matter of course that we are not to discriminate between our bank notes; I mean to say that we are not going to make the large notes a legal tender and let the small ones remain as they are. This would subject the notes of small denomination to a certain depreciation.

A number of the speakers have urged that the privilege which Berlin enjoys in the matter of the redemption of the bank notes be extended to all the main branches of the Reichsbank. I can readily conceive why there should be a demand of this kind, proceeding from considerations which I should not exactly characterize as local patriotism, but which I should rather say expressed certain local needs, which actually exist and which I regard as quite natural and legitimate. But it seems to me that if we are to accede to this demand the whole enactment will in a large measure be deprived of its purpose; for the object of the provision is that the Reichsbank shall be able at all times to have at its disposal as large a stock of gold as possible—a consummation incompatible with the

necessity of supplying the various main branches with a large amount of coin, in order that they may wait for some one to come along who would like to have gold in exchange for bank notes. Now, inasmuch as the redeemability of the notes is absolutely assured, the gentlemen who have been urging this change ought to consider it sufficient if the arrangements are such that any demand of this kind will be met within a specified and reasonably short time. After all, even as matters stand now, you can not say that if some one should come outside of Berlin with a 1,000-mark note there would be no way of exchanging it for gold. If we have to deal with large sums, however—and this is the main point—the thing can be so arranged that the managers of the branch offices can let it be known that they must have such and such a supply of gold within so and so many days (say, three, four, or five days)—it is not for me to say how the provision is to be framed—and then the whole matter is very simple indeed. The necessity of satisfying local needs, therefore, does not involve the inference that bank notes may be redeemed on presentation at any one of the disbursing offices of the Reichsbank. The disadvantage to which I have referred arising from the circumstance that the Reichsbank would be prevented from having as large a stock of gold as possible at its disposal would more than outweigh the advantage resulting from the redeemability of the notes at the branches outside of Berlin, and I am therefore of opinion that we can not afford to yield to the demand in question.

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It is hardly worth while wasting words on the question of the imperial treasury notes. One of the speakers remarked that they are a blemish in our coinage system. Now, in my opinion, the people who have to handle these treasury notes themselves will not care so very much about their looks, especially since their issue has proved to be a necessity, and, considering the comparatively small amount of these treasury notes, I do not think we ought to institute any change in this respect.

I have now to touch upon the question of the private banks of issue. In regard to this matter I do not quite agree with the gentlemen who are in favor of according the same privileges to the private banks of issue as to the Reichsbank. [Quite right.]

I am unable to share this view. The Reichsbank exercises its functions—if we consider the matter from a purely practical standpoint—very largely, if not altogether, in the interest of the public, in the interest of the imperial treasury. This can not be said of the private banks of issue. They represent business undertakings, which, as I must unreservedly acknowledge, are splendidly managed, but which can not claim to be regarded as institutions entitled to the advantages of the legislative arrangements that exist for the benefit of institutions connected with the Imperial Government. I see no reason therefore—and I am confirmed in my opinion by what I have heard here—for making the notes of the private banks likewise legal tender. If it is argued that in that case we are bound to provide some sort of indemnity for the private banks of issue, I am not yet prepared to say

that the situation of these institutions is so distressful as to call for relief. At least, this would first have to be made apparent. Why a change in the status of the notes of the Reichsbank made in the interest of the Imperial Government should be the occasion of making concessions to the private banks of issue likewise, I can not quite comprehend. In the same way, in the case of every law enacted in the Reichstag—and unfortunately this happens only too often—those who believe their interests to be injuriously affected would have a right to come and say, “This is going to hurt us; you will have to indemnify us in some way.” I think, therefore, that we might as well drop these discussions regarding indemnity for the private banks of issue. For my part, I have absolutely nothing to discuss.

To sum up. I am of opinion that we ought to agree on a resolution to make the notes of the Reichsbank a legal tender and that we need fear no evil consequences either at home or abroad.

Mr. RAAB. I can not see, for my part either, that I can add anything new to the arguments already advanced. I must say, however, that I always look upon it as a good thing if we proceed to incorporate in our own monetary system the arrangements which those masters of the world’s trade and finance, the English, have in theirs. Just as the legal-tender quality of the English and French bank notes has not tended to excite the least suspicion in regard to the gold standard so we need not fear the slightest danger if we do what England and France have done. The safeness and redeemability of the notes of

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the German Reichsbank are too well known all over the world and our financial fabric rests on too firm a basis for us to feel any apprehension whatever.

It must be said, however, that the existing provisions of the law render it possible for persons who use tricky methods in business to refuse on occasion to accept our good, trusty bank notes, and thus to cause temporary embarrassment to their fellow-men. We ought to do away with this possibility as speedily as practicable. Our bank notes are regarded as perfectly good money everywhere and there are extremely few people who are aware of the fact that if they wish to behave in an ugly manner, they are not obliged to accept the notes. Many persons will perhaps hear of this for the first time through our discussions, and no one can tell whether the very publication of the proposed amendment does not carry with it a certain incentive to trickery. For this reason I, too, should consider it desirable to have the provision in question passed and put into effect as soon as possible. The proposition to make the notes of the Reichsbank redeemable at the branch offices appears to me altogether sound and practicable, and I must express myself heartily in favor of it.

Mr. FISCHER. You will pardon me, gentlemen, if I once more introduce some of my reflections in this discussion. Let us not forget that we have at the present time about 900,000,000 marks of subsidiary silver currency and that the law permits the raising of the amount by successive steps to 1,250,000,000 marks. Then we have a great quantity of gold in circulation. The amount is smaller, it

is true, than has hitherto been estimated, but it is, nevertheless, very large, and it may in any case be reckoned to be considerably larger than the total of the bank notes in circulation. We have, besides, the imperial treasury notes in circulation, and then there are the notes of the Reichsbank, which at this moment amount to about 1,500,000,000 marks. All these various forms of currency ought to be qualified to discharge their functions as instruments of exchange; that this is of the utmost importance goes without saying. A considerable part of them, however, at the present day are in reality thus qualified only by reason of the toleration of a condition to which the people have become habituated and of whose want of a legal basis there is a widespread ignorance. Now, I can not look upon it as a matter of no consequence, especially when it comes to troublous times, that one portion of this currency does not in reality possess the quality of a circulating medium of full validity in spite of the fact that its quality rests on the obligation to redeem at any time in gold.

It is evident that the redemption of even a pretty small part of the notes in circulation is calculated to produce a contraction of the currency and that just in times of crisis, when the demands of business are increasingly urgent and when it is necessary to enlarge the volume of currency, the Reichsbank, which we have empowered to issue bank notes, must find it especially difficult to exercise its functions if any doubt arises as to whether the notes will be universally accepted. There might hence be a fear that the money market will give out, a fear that

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will make itself felt long before there is any apprehension that a difference may be created between gold and bank notes. But if it becomes necessary to augment the volume of the currency through the agency of the Reichsbank, it is no little disadvantage, in my judgment, that this increase affects exclusively that part of the currency which can not be absolutely considered a circulating medium of full validity. I admit that this is all theory, but even so it is a matter of consequence. The maintenance of our currency up to the full standard—that is the very thing that the Reichsbank is called upon to perform.

It seems there is no getting done with the question that has been brought up as to whether there are not people who at a particular moment—reference was made specifically to this kind of uneasiness—will proceed to hoard up gold. There are various kinds of fear. I admit that the fear of which President Kaempf was speaking is of a more serious nature than that other which consists only of excessive caution, but it is in our interest to suppress the elements of fear where they are capable of being suppressed, even if they seem less important, for the one kind of uneasiness may easily develop into the other and more serious kind. The fear that the bank notes will not be redeemed if the public should lose faith in the stability of the German monetary standard and the anxiety in regard to the political situation is such as to make people begin to hoard up gold—this kind of fear we are unable to suppress. This circumstance, however, should not make us inclined to overlook the other kind

of uneasiness, which is also of a serious nature even if it be not, as I admit, nearly so portentous as the first. But what is going to take place if at a critical time or at a time of general uneasiness doubts should arise regarding the stability of our monetary standard or a widespread sense of insecurity which would impel people to hoard up gold? You will then see something that is extremely dangerous, a diminution of the volume of our active circulating medium. This very thing will greatly intensify a crisis, and it is capable indeed in itself of producing a crisis even when the conditions in the matter of demands for credit afford no indications of one. But if our currency thus suddenly begins to prove inadequate, we ought to have the means of immediately replacing the portion withdrawn with currency of equal valence. But this circulating medium of equal valence must, in my opinion, be such as possesses the same quality with reference to the discharge of one's liabilities as gold. We are bound to preserve intact the quality of our bank notes, we must render them still better adapted to the purposes of business by making them a legal tender, and we must place them on a higher level with respect to security by providing as large a metallic reserve as possible. It is of great importance at all times for us to have a large stock of gold. [Quite true.]

For my part, I am convinced that, without suppressing the free expression of our opinion in case it is not altogether in accord with that expressed by our chairman, we may safely proceed to declare our assent, uninfluenced by anything that might be considered to partake of the

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nature of a constraint imposed upon our decision. We may rest assured that the managers of the Reichsbank will be as fully conscious of the fact of their being obliged to provide for the redemption of their notes if we make them a legal tender as they would otherwise be. They would be likely, indeed, to realize it even more fully. For this very quality of a legal tender, the quality of serving as a circulating medium of full validity, would cease to exist the moment the Bank for any reason found itself unable to redeem its notes promptly.

In the question sheet we are asked to consider the question whether the investment of the bank notes with the legal-tender quality can have the effect of increasing the stock of gold in the Reichsbank by accessions from the gold circulating in the country.

It is my opinion, gentlemen, that the stock of gold would probably be increased by withdrawals from the currency circulating in the country; that is to say, there would be an increased volume of bank notes covered by an equivalent deposit of gold. For it has come to be a patent fact in Germany—or, shall I say, it has remained a patent fact?—that a mass of payments are being made in gold when there is no necessity for it whatever. This is apparent when we perceive the large flow of gold toward every corner of the country at the quarter days, a movement that would not assume such proportions if the bank notes were a legal tender.

We have been reminded by our chairman that in such times as we experienced last year it would have sufficed to have called upon the officials in charge of government

offices handling money to transfer their superfluous gold to the Reichsbank in order to have rendered it altogether unlikely that the gold reserve would fall below the one-third mark. What does this gold in the government offices consist of? It consists of two parts. The first is that which is nowadays required only theoretically to be kept on hand in order to meet a possible demand. The second is that which has to be kept for practical reasons in order to provide for payments that have actually to be made in gold. The former is a superfluous stock of gold, and it would be better if it were lying in the vaults of the Reichsbank and there were an equivalent amount of covered bank notes. I should personally be very sorry to see any permanent regulations enacted that might tend to diminish greatly the circulation of gold in the Empire. I believe that what constitutes the strength of Germany is our being able to rely upon the presence of a large supply of gold in the country. I see in this a sort of safeguard against a considerable depreciation of the bank notes even if a crisis should oblige us to have recourse to forced circulation or if the Reichsbank, by reason of its inability to maintain its reserve up to the one-third mark, should be temporarily unable to redeem its notes. For if we wish to prevent the depreciation of the bank notes, it is essential that the volume of currency which the country has and requires—the amount corresponding to the needs of business—be not materially diminished. The moment that gold, by reason of its greater value, ceases to be regarded simply as currency and is held to be something different

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from bank notes, there ensues a displacement of the circulating mediums that is equivalent to a contraction of the currency. The only way we can conceive of a premium on gold is if we imagine that a person could get more for a 20-mark piece than for a bank note to the same amount, so that the gold coin would no longer pass freely from hand to hand. The great quantity of 20-mark pieces is therefore more or less of an assurance for us that a premium on them will not so easily arise and that they will not easily be driven out of circulation. But as long as they circulate they will continue to count for just 20 marks.

It has been pointed out by Herr Schinckel, with whom I am very much in accord in this whole question, that there is already a disparity between Berlin and the great cities of Germany with respect to their right to ask for gold. I am convinced, however, that the present situation is much worse for all who are engaged in credit operations in those cities than the future one will be. For as it is now, their obligations are straight-out obligations to pay in gold. These obligations have to be met at the place itself, and if they have hitherto been discharged without any friction by means of payments in banknotes, this has been possible only through a certain forbearance on the part of the creditors. [Quite true!] This is certainly not a very desirable condition. I should myself consider it a great gain if some means were devised of making our stock of gold available at these places as well as in Berlin. There is one thing, however, that I think we have to consider, and that is the practical side of the

problem. Viewed from a practical standpoint, the splitting up of our stock of gold is not altogether an unobjectionable proceeding. The Reichsbank may, if it is protected up to 80 per cent, be in so strong a position as to feel that it can safely place large amounts of gold at all sorts of places without prejudice to its ability to meet every possible demand at the central station. But if its stock of gold is not so large, it will not be a very simple matter for the Reichsbank to have to speculate whether its notes will not come in for redemption more at one place than at another and whether it may not be necessary therefore to have in readiness for any given amount of notes that may be presented for redemption a supply of gold several times as large. Is it probable, for example, that at the close of last year, when there was such an outflow of gold, it would have been possible to say in advance whether the principal drain would be likely to be at Berlin, or Hamburg, or Bremen, or Cologne, or to have any idea of the amount that would probably be taken away at each place? It would have been no great misfortune if those engaged in the arbitrage business had got their gold, say, at Bremen and saved the cost of carriage; but this only leads me to think that in times like those it is not such an easy matter for the Reichsbank to decide just how much gold shall go to each place and to make sure that it will keep within the one-third limit. Being persuaded of the necessity of lending the most effectual moral support to our gold standard through the maintenance of a system by which bank notes are redeemed in gold at once or as quickly as practicable, I

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will say that I am in favor of arranging matters in such a way that the chance of a person's not being able to get gold at a place outside of Berlin shall be regarded as something removed from the domain of practical realities to that of theoretical possibilities.

There is a question which, I believe, has to be considered in this connection. It has been urged that, in framing the law making the bank notes a legal tender, if we are to have such a provision, it would be well to follow closely the example of the Bank of England and say: The legal-tender quality exists only so long as the bank redeems its notes in gold, and it does not exist with respect to payments out of the Reichsbank itself. Now there is an essential difference between the Bank of England and the Reichsbank. The Bank of England is concentrated, having only four or five branches. The German Reichsbank has, on the other hand, a large number of branches which perform the most important service through the system of deposit accounts and transfers, something which does not exist in the Bank of England. This constitutes, I say, an essential difference. A gold reserve has until now not been considered necessary as a protection for the depositors, and if the deposits should go on increasing the absence of a reserve might be felt. [Quite true.] The ideal that I should have in mind in the case of an imperial bank is that all its notes should be covered, for the reason that an extensive circulation of uncovered bank notes, coupled with the absence of a reserve for deposits, is fraught with more or less danger. It will take some time for us to reach that point, but meanwhile the deposit business of

the Reichsbank exists, and we have to reckon with this fact in considering the question before us. I am sure we are not anxious to see the deposit business restricted in any way or possibly even abolished [quite true], for it is the very thing that has brought about the consummation so ardently desired by Herr Schinckel that a bill of exchange drawn on Hamburg is as good as one drawn on Berlin. I confess that I should consider some even preferable. Now if we have to consider whether we shall be able to follow the example of the Bank of England in the matter of the new law with respect to every point, I must admit that I should be sorry, for my part, if there were to be no provision declaring that the legal-tender measure does not apply to payments out of the Reichsbank. I should therefore suggest that in order that the bank may not be obliged to scatter its stock of gold in too many places, and that it may be relieved of the necessity, in the opening of deposit accounts, of making special stipulations intended to secure it against the sudden withdrawal of gold from all its branches, a regular clause be introduced to the following effect: That the legal-tender provision does not apply to payments out of the Reichsbank, with this limitation, that in payments made outside of Berlin in connection with deposit accounts the Reichsbank shall act according to what it considers expedient and with reference to the amount of gold in its possession, but be obliged, at the request of the depositor, to procure gold as quickly as possible at its own expense from its central establishment and to pay it out.

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I know that the objection will be raised to this proposition that we shall be encouraging the arbitrage business. As I believe, however, in allowing our gold to be freely exported, and as I consider an excessive rate of foreign exchange a greater evil than the loss of gold, I am of opinion that we ought not to be so timid about paying out gold at other places than Berlin. I am aware that this will be like a discrimination in favor of our seaports, which will have a certain monopoly in the gold arbitrage business, but even such a result will not frighten me. Neither do I believe that such a provision as this will hurt the Reichsbank, because of the fact that a person who deposits money must pay in advance of the time when he can get his gold, and is thus put to some slight expense. I regard the restrictive clause relative to the immediate payment of gold (the cost of transportation being defrayed by the Reichsbank) as necessary, otherwise we should practically be constrained to ask ourselves whether it will actually be possible for us to enforce the provision compelling the Reichsbank to pay under all circumstances in something else than its notes, considering that this would involve the obligation of paying depositors any amount they may choose in gold at any place whatsoever. The obligation of the Reichsbank to pay in gold would then be more pressing with respect to its deposits than with respect to its notes. We must not leave out of consideration the fact that the Reichsbank has a definite and ascertained amount of notes in circulation. To provide for their redemption, if our stock of gold is large, is not a difficult matter. We know, as a matter of experience,

that they are not presented for redemption down to the last note. The total of the deposits is an unlimited amount, and it is in the nature of the circumstances that this total shall go on increasing materially year after year. If it is not our purpose to introduce a provision compelling the Reichsbank in the case of deposits, just as that of bank notes, to maintain a gold reserve amounting to not less than a certain per cent of the total of the deposits—this, in my judgment, would be going too far—then we can not very well, especially considering the fact that the deposits are repeatedly withdrawn (that is to say, they are paid in again, and again taken out), place the deposits on a higher level than the bank notes. The notes are redeemable on presentation in Berlin, but at other places only in so far as it is expedient to redeem them. I should be very glad to see these words “in so far as it is expedient” construed in the broadest sense. But if, with reference to this matter of deposits, we were to adopt without any limitation whatever the provision that the notes are not to be a legal tender in payments out of the bank, we should be placing the bank in the position of having to assume a much greater burden in regard to the deposits, whose volume is unlimited, than in regard to the notes in circulation. I must repeat, however, that I attach the greatest value to this provision, which is contained in the constitution of the Bank of England and which I regard as logical—logical because the fact of our conferring such a privilege on the bank notes involves the inference that this privilege does not extend to those who are liable for the notes. Else the possibility would be afforded of

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putting more notes into circulation than would perhaps be desirable. It is therefore necessary, in case we adopt the proposed measure, to put this question to ourselves: How shall we amend it in a practical and consistent manner so as to make it conform to the changed conditions arising from the aims and ends dictated by the peculiar business carried on by the Reichsbank, as compared with that of the Bank of England?

Mr. FISCHER. Even without the earnest and impressive words which our president uttered yesterday afternoon, I should have felt myself impelled, after careful reflection and after close consideration of the points to which my attention was specially drawn in the various opinions of the experts, to express myself in favor of making the bank notes a legal tender at the earliest possible date, as I consider them an effective means of protecting the stock of gold in the Reichsbank at a time of a slight crisis or at the beginning of a serious one and as the introduction of such a measure at a time when calm prevails would cause much less of a disturbance than what would ensue if this had to be done in the midst of a severe crisis. The expressions of our chairman have, however, made it much easier for me to combat the objections raised by Herr Roland-Lücke and I have decided to state my standpoint as follows: Every innovation that we make by means of a legislative measure has its dark sides, as well as its bright ones, and the only question is whether the bright sides materially surpass the dark sides. But if we feel sure that the dark sides are not too important, then we have got to take them into the bargain, and we can not get around that in

this instance. In any case I am not afraid of their persisting in our own country and I do not believe that their effect with respect to the outside world will be as bad as some appear to imagine. Those people abroad who have a friendly feeling toward us—and there are still some of them left—will have a chance to convince themselves that this measure is not so bad after all, and those who are extremely unfriendly and hostile will hardly become more embittered against us because we have declared our bank notes a legal tender.

There is one point, however, that I should like to press here which may help us perhaps to straighten out matters. The law on which we are now working is not to go into effect until January 1, 1911. If the next few months are to be devoted to the discussion of the supplementary act or the question of the renewal of the act, then a much greater interval of time will elapse between the deliberations in the Reichstag and the date when the new act goes into effect, if the new order of things in its entirety is not to be actualized until January 1, 1911, and there is the danger, it seems to me, that this will afford an opportunity to tricksters and panic-mongers and all sorts of evilly disposed people, whose attention will have been called to the actually existing conditions by the debates in the Reichstag, of practising all kinds of petty cheating and otherwise causing trouble. It is my opinion, therefore, that the thing to do, in case the legal tender provision is embodied in the bank act, is to make it operative not from January 1, 1911, but as immediately as possible after the promulgation of the laws.

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You will pardon me, gentlemen, if I have a word to say in favor of the private banks of issue, as I come from a country, Württemberg, where the banks of issue not only command the greatest respect but exert a powerful influence so that it would be considered a serious matter if such banks were made to suffer and in the end perhaps forced out of business. Not a single member of this commission has uttered a syllable to urge that anything be done in order to render the future position of the private banks of issue less favorable than the existing one, but it is admitted that if the notes of the Reichsbank are made a legal tender it will be in a measure to the prejudice of the private banks of issue, and therefore, of course, not only managers of these banks, but all who are engaged in manufactures, trade, or the small crafts, particularly in Württemberg, are extremely desirous that this shall not take place and that the private banks of issue shall be permitted to continue that useful activity which they have exercised in Württemberg. The gentlemen who are at the head of these banks will, of course, be afforded an opportunity of coming in direct touch with those intrusted with the disposition of these matters and of treating with them regarding the indemnity to which they think they are entitled, and it will then be for the Reichstag to decide what it considers admissible.

But not merely in the interest of these banks of issue, but in the interest of the entire traveling public and of all that goes with the traveling public—and nowadays nearly everybody is to be reckoned in this connection—I consider it desirable that this be made the occasion

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for granting to the notes of the South German and Saxon private banks of issue somewhat enlarged privileges in the matter of entering other parts of the Empire so as to make it no longer possible for a person to go up to the railway ticket office at Berlin or some other place with a pocketful of South German notes and be unable to get a ticket, and to put an end to this dismal state of things in the German Empire by enabling everybody to settle for what he owes, at all the transportation offices at least, with the notes of any one of the private banks of issue.

There is but one thing I have to remark in regard to the imperial treasury notes. It can not be said by any means that the unpopularity which Doctor Ströll attributes to them extends to every part of South Germany. In Würtemberg, at the instance of a number of large business concerns, who have been complaining of the 5-mark notes, an inquiry was set on foot by the chambers of commerce, which proceeded to obtain information from all sides, and, strange to say, the outcome of this investigation was to the effect that all the small bankers in particular assure us that they simply would not be able to get along without the 5-mark notes, for which there is an immense demand, the individual amounts, of course, not being large, but the number of applicants very great. All in all, the people of South Germany are not so dissatisfied either with the 5-mark or the 10-mark notes in small dealings as some would have us believe.

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Mr. GONTARD. I answer General Question IV in the affirmative. The extent to which gold can be taken out of the hands of the people at large depends upon the quantity that happens to be in their possession. The approximate amount of this supply we intend to ascertain in a rough way by means of certain data—those, for instance, which are derived from a knowledge of the quantity of gold consumed in the manufacturing industries. If I have waited till the last hour to ask permission to express my views regarding the legal-tender quality of the bank notes it is because I was anxious to get as much information as possible from you all with respect to this important question, and I can say that I have indeed learned a great deal. I have been particularly interested in what Herr Fischel had to say. I have paid special attention to this question and I have been astonished to find so many conflicting opinions expressed in the course of this inquiry. I have weighed the votes, and not only counted them, and I find that the most divergent views prevail among the banking fraternity as well as in outside circles. The arguments for and against have been clearly set forth in our discussion to-day.

After mature reflection, I can say that I am unreservedly in favor of making the bank notes a legal tender. Neither do I believe that there is any use in trying to attach conditions to the introduction of this legal tender provision. I feel quite sure that Herr Schinckel did not mean in any way to speak *pro domo*, but I do not believe that we can afford to put any such obstacles in the way

of the Reichsbank. The statements of Herr Fischel and Herr Singer have had the effect, I trust, of dispelling Herr Schinckel's misgivings.

There is one thing, however, for which I should like to put in a word on this occasion. It would be a great satisfaction to me if the Sächsische Notenbank should not only be preserved as it is but even strengthened as far as possible. Just how this is to be done is not for me to say, as I assume that the Reichsbank and the Imperial Government can best decide. I should be willing, therefore, to defer to their judgment.

As a Saxon, I have been somewhat hurt by some remarks dropped by Count Kanitz and Herr Singer. Let me remind the gentleman—not Herr Singer, but Count Kanitz, who was as much of an admirer of Bismarck as myself—that it was Bismarck who made it a point to spare the legitimate peculiarities of the individual States as far as possible. He expressed this on every occasion, and it is with a legitimate peculiarity that we have to deal here, even if it be one in the domain of economics.

I am in favor of doing away with the imperial treasury notes as soon as the finances of the Empire admit of it.

Freiherr VON CETTO-REICHERTSHAUSEN. Nowhere in the course of these debates have I felt the responsibility attaching to my vote so much as in regard to this question, and I have no doubt that this has been the case with some of the other gentlemen who have been present at our discussions, especially as the question has assumed

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a somewhat different complexion through the introductory remarks of the president of the Reichsbank from that which it had at first. I am not in a position, gentlemen, nor do I feel that I have the knowledge, after the weighty utterances of men specially qualified in this field, to enter once more into the technical details of this question, and all the more so since the divergent opinions that we have heard have made it evident what different aspects there are to the question. I hardly believe, indeed, that those who have expressed themselves in favor of or against the measure at issue have been altogether unwilling to admit the force of the arguments on the other side.

In what concerns the actual situation, to begin with, there is one point that is certain—and no one here has disputed the fact—and that is, that the existing state of things is in reality not altered by our declaring the bank notes a legal tender, inasmuch as the public at large has hitherto unhesitatingly accepted the notes of the Reichsbank when tendered in payments, even at a time of crisis. I can not help asking myself, however, what sort of an impression is likely to be created among the masses if this quality of a tender is formally established by law, and I have put this question to myself with reference especially to the rural population. Everyone knows that the people out in the country like to be paid in hard cash, preferring it to bank notes, and I believe Herr Fischel was right in calling our attention to the fact that numerous payments are at present made in gold that could just as well be made in paper. This applies particularly to conditions in the rural districts, and it appears to me not unlikely that

if the notes are declared a legal tender in a manner calculated to cause a stir, people might begin to suspect that we were contemplating a transition to a paper standard, such as was effected at one time in our neighbor country, Austria. Don't forget, gentlemen, what a fascination gold possesses for some people. I know by experience that in some cases the owner of a certain piece of property, or of an estate, was induced to part with it only when the purchase money was planked down before his very eyes in gold pieces. This is a point, therefore, which I should like to submit to your consideration, one which may perhaps serve as an argument against, or create some doubts concerning, the expediency of making the bank notes a legal tender.

But as against this point, gentlemen, and various other considerations that have been brought up in the course of these discussions, there are, in my opinion, weighty arguments on the opposite side. The task that has been imposed upon us is to answer the question submitted to this body in terms having reference to the possibility of protecting the stock of gold in the Reichsbank. Now, this stock of gold can continue more or less uniform only in times of tranquility, while in critical times it becomes fluctuating. But it is altogether essential that the stock of gold in the Reichsbank shall go on increasing continually and regularly, and, considering how necessary this is, it appears to me that it would be of the greatest advantage to frame a measure calculated to strengthen permanently the stock of gold in the Reichsbank. In forming a judgment regarding this question, there is a factor that should

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not be lost sight of. It is evident that much may depend upon whether a political crisis comes on suddenly or whether it has been brewing for a long time without occasioning any particular economic depression, and in this connection the fact has to be taken into account that such a depression is not necessarily caused by the fear of war, but may result from all manner of economic happenings. In case the political crisis has been preceded by a prolonged economic depression, the Reichsbank will naturally have a much smaller stock of gold in its possession than it would have had under the other assumption. In the latter case we can easily imagine that the Reichsbank, equipped with a considerable stock of gold, would be able to face the crisis.

This alone to my mind makes it necessary to institute measures tending, as far as possible, to insure the permanent presence of a sufficiently large stock of gold in the Reichsbank.

The question still remains whether the means that we propose to adopt toward this end by answering the interrogatory regarding the legal-tender provision in the affirmative will suffice to attain this object. A consideration of the proposed measure from this standpoint would make it seem somewhat doubtful whether this will altogether prove a suitable expedient for strengthening the stock of gold in the Reichsbank. But there are certain other factors, which appear to me decisive, that impel me to vote in favor of declaring the bank notes a legal tender on the occasion of the promulgation of the new bank act, and I agree with Count Kanitz that it

would be well to declare the provision in question operative, not from the date when the bank act goes into effect, which is still some years from now, but from the date of the promulgation of the act.

I should like to say a few words in regard to the relation of the Reichsbank to the private banks of issue. In this matter I agree with the views expressed by the gentlemen from the South German States, in which there are private banks of issue. I believe that these private banks of issue, and in particular our Bayerische Notenbank, have been of the greatest service with respect to the needs of credit in the individual States and that they are deserving, therefore, of all the consideration that we can afford to give them. I am willing to admit that the status of the private banks of issue relatively to the Reichsbank, as legally established, precludes the investment of their notes with the quality of a legal tender, but Doctor Ströll has already referred to the possibility of an indemnity, something that might in a measure be an equivalent, and I must also call attention to the fact, repeatedly adverted to in to-day's discussion, that we consider it a great hardship in the individual States that our bank notes, which are based on such excellent security and whose intrinsic soundness no one thinks of questioning, the moment we cross our boundaries are refused by the public authorities. [Quite true.] I should therefore particularly request the president of the Reichsbank to take this matter into consideration and to try to see whether a change is not practicable.

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Considering the late hour, gentlemen, I believe you will not be sorry if I break off at this point with the restatement of my opinion that the existing situation and the grounds to which I have referred render it absolutely necessary to make the notes of the Reichsbank a legal tender.

Doctor RIESSER. I should once more like to sum up briefly my opinion regarding this matter of legal tender—apropos of various remarks that have been made in the course of to-day's discussion—in the following theses:

1. In normal times the presentation of a great part of the notes at the Reichsbank for redemption is an exception, and not the rule, independently of whether they are a legal tender or not.

2. At a time of crisis, however, the presentation of a great part of the notes at the Reichsbank for redemption easily can and frequently will, at least temporarily, become the regular thing, while the legal-tender quality would at such times make it an exception.

Doctor WACHLER (personal remark). I wish to say briefly that Doctor Ströll misunderstood my meaning altogether if he assumed that I credited the Reichsbank with acting in a vexatious manner. All I said was that I should almost consider it a vexatious proceeding with respect to the Reichsbank if creditors should refuse to accept bank notes from their debtors on the ground that not every branch of the Reichsbank would be able to redeem them at once in gold.

Count KANTZ (personal remark). I regret that Herr Gontard has so completely misunderstood me. I did

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not in any way intend to speak disparagingly of the private banks of issue, for I am perfectly aware what an important position some of the private banks of issue hold, and especially the Saxon bank of issue, in which Herr Gontard is particularly interested. The Saxon bank of issue, with its capital of 30,000,000 marks and a surplus of over 7,000,000 marks, is by far the largest bank of issue in Germany after the Reichsbank. Next in order come the Baden and Württemberg banks of issue, each with a capital of 9,000,000 marks, and then follows the Bavarian bank, with a capital of 7,000,000 marks. I certainly appreciate the importance of the private banks of issue, and I should like to see their useful activity continue unimpaired. I sincerely regret for my part that the proposed measure making the notes of the Reichsbank a legal tender must, in the nature of the case, be more or less to the disadvantage of the private note-banks. The meaning my expressions were meant to convey was that we should not allow ourselves to be so far influenced by considerations with respect to the indemnity the private banks of issue might demand as to make it appear that there was danger that the whole measure might be dropped. This is not the way I look at the matter. I am in favor of immediately declaring the notes of the Reichsbank absolutely a full legal tender, after which we can come to an understanding with the private banks of issue.

Mr. GONTARD. I wish to express my thanks to Count Kanitz.

The CHAIRMAN. We have heard the last speaker on the list. Geheimrat Wagner has asked to be permitted to take

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the floor in order to make a brief remark, and I have given him my consent on the assumption that we shall continue the discussion of this point to-morrow. I shall therefore reserve to myself the privilege of letting him have the floor to-morrow. We shall continue the discussion of Question IV, A, to-morrow morning at 11.30, and shall then proceed to Question IV, B. I declare the meeting adjourned.

(Close of session 5.30 p. m.)

SATURDAY, OCTOBER 17, 1908—10.30 a. m.

Chairman, the president of the Reichsbank direktorium Wirkliche Geheimer Rat HAVENSTEIN. I reserved to myself the privilege yesterday, gentlemen, of promising the floor to Geheimrat Wagner, who desires to say something more relative to Question IV, A, of which, aside from this, disposed.

Doctor WAGNER. I left rather early yesterday, thinking to return while the commission was still in session. When I got back, however, it was already over. I am grateful to our president for having reserved for me the privilege of speaking again to-day.

After listening to the discussion of Question IV, and in particular of the question as to whether the notes of the Reichsbank should be declared a legal tender, it has become more evident to me than before that if we are going to enact this admittedly far-reaching provision investing the notes of the Reichsbank with the quality of a legal tender, the guaranties, which, although not altogether lacking, are inadequate, will have to be made more effectual. I agree in this respect with what has been repeatedly asserted by the gentlemen who have had practical experience in these matters, and especially with what the representative from Hamburg has said. I am also of opinion that we must absolutely assure the redemption of the bank notes in the strictest sense and that we must introduce into the law more explicit declarations regarding the various points in question. There is already

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a provision relative to this matter in the existing law, but to my mind it does not go quite far enough. It seems to me, furthermore, that just when we are enacting a regulation which many suppose is apt to impress the popular mind here and there as something peculiar—I may say that I do not share this apprehension—we ought to do our best from the outset to allay any possible apprehension that may arise regarding the significance of the legal tender quality by inserting a distinct declaration in an appropriate place in the bank act to the effect that the notes of the Reichsbank, as well as those of the private banks, are strictly redeemable in German gold coin. The same thing must be explicitly stated at various places in the bank act. If we do this right now, we shall dispel all doubts as to whether our action in declaring the notes a legal tender was not based on entirely different considerations.

With this object in view, I have made a brief study of the law relating to the Reichsbank. There are various passages that have to be considered. I shall not call attention to all of them at this moment, but only to the most relevant ones.

The act of 1875 relating to the Reichsbank reads as follows (paragraph 2):

The acceptance of bank notes “is not obligatory” in the case of payments that, according to the law, are to be made in money.

It will now have to read:

“ * * * is obligatory ‘only in the case of the notes of the Reichsbank, which are at all times redeemable in German gold coin,’ ”

to which must be added, "except in the case of payments made by the Reichsbank itself," in accordance with the provision of the English law.

The following point would furthermore have to be introduced into the act—I have discussed the matter with several of the gentlemen here and have not been able to convince myself that the insertion of this point would be superfluous—

"and in the case of those payments which the private banks of issue have to make in the redemption of their notes." The absence of such a provision would in my opinion lead to the inference that the notes of the Reichsbank are to be a legal tender, therefore, unless an exception is provided for by statute, even in the case of the notes of the private banks presented for redemption. It is urged, however, that there is a special provision covering this point in the law. But it seems to me that this is implicitly rendered nugatory by the present broader provision making the notes of the Reichsbank a legal tender. At best it is a doubtful point. In regard to the private banks of issue it may indeed still be an open question whether they ought not to be allowed to redeem their notes in the notes of the Reichsbank. The subject is one that invites discussion, and various arguments may be adduced for the affirmative. But one result of such a provision, if it were adopted, is evident. The private banks of issue would thereafter keep no stock of gold or only a very inconsiderable one. As far as I am informed the Bavarian bank has about 30,000,000 marks in gold and the three others have also about 30,000,000 marks. All this gold might in that

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case be for the most part replaced by notes of the Reichsbank, and the result might be that it might flow into the Reichsbank, so that the gold supply of Germany would be concentrated in that institution even more than now. This would have its advantages, but, on the other hand, it would appear to be very undesirable to relieve the private banks of issue of the obligation to redeem their notes themselves in gold coin. If such a provision, however, is not contemplated I should recommend, in case the notes of the Reichsbank are declared a legal tender, that an explicit declaration be made to the effect that this quality will not inhere in the notes of the Reichsbank in the case of the redemption of its own notes by any private bank. This will have the effect at least of removing all ambiguity.

Another effect would be—I think I ought to mention this, as the connection is indisputable—that it would help us to spread the belief that we mean to redeem our bank notes in gold and that we are able to do it. This matter goes hand in hand with the view that we have in fact absolutely instituted the gold standard pure and simple. To say the truth, I have my doubts as to whether we have actually achieved this. As long as we have over a billion marks of silver money, which is not covered by a special gold reserve, and as long as there is such a large amount of imperial treasury notes, of which the same may be said, our gold standard has not merely to bear the mark of a corporal blemish, as Herr Kaempf has asserted, but is afflicted with a deep-reaching organic defect. It is all the more important, therefore, as a matter of appearance,

just when we are attaching so much weight to the impression produced abroad, that we should frame our provisions relative to the protection of the notes of the Reichsbank in such an explicit manner that everyone shall recognize the ability and the duty of the Reichsbank to pay in gold and to redeem its notes in gold—in coined German gold, in gold bullion, in foreign gold coins. And it might perhaps be well if we could have a clause, which, instead of 1,392 marks, shall read “up to the sum of 1,395 marks,” or so much more than before, if we are going now to do away with the hitherto existing seigniorage. But this reckoning as part of the one-third required in the case of the reserve against bank-note circulation, not merely silver money, but also imperial treasury notes, as we are doing at present, will, of course, cease absolutely to have any *raison d'être* if the notes of the Reichsbank are declared a legal tender. What we have to do, in my opinion, is to drop the provisions regarding this from paragraph 9. There can be no objection to our doing it for, as it is, the Reichsbank can not redeem its notes in imperial silver money, nor, in fact, any longer in the silver talers, which have almost entirely been withdrawn from circulation. I am fully in accord with what President Havenstein in particular maintained again yesterday, to the effect that we must do our best not to permit the utterly untenable view regarding this point entertained by Doctor Arendt—whom I otherwise consider one of the foremost authorities in this field—to assert itself, or, in other words, that we must shrink from relieving ourselves from our obligations by a resort to such sophistry (this is the only name I can find

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for it) as regarding the redemption of each individual bank note an independent transaction in the eye of the law. It is our duty to spread the conviction everywhere that the bank notes are at all times redeemable in gold only, and consequently to omit from the provisions relative to the reserve the admissibility of any other kind of covering for the bank notes than gold. This may occasionally be somewhat of a hardship for the Reichsbank, but at least there will be nothing inconsistent about it.

We have still to consider a point, gentlemen, to which Herr Fischel again adverted with perfect justice yesterday. When the Reichsbank was founded no one could have imagined that we should have such enormous deposits constantly subject to withdrawal. This is evident from the fact that when it came to making provision for the contingency of interest-bearing deposits—a question that will presently engage our attention—the law of 1875 fixed the maximum amount of such deposits at the total of the paid-in capital and surplus of the Reichsbank, which total is now in the neighborhood of 250,000,000 marks. No one on the occasion of the discussions in the seventies thought of this peculiar outcome that, as a matter of fact, the cash reserve of the Reichsbank serves as a covering not merely for the outstanding bank notes, but also for the deposits, the paying off of depositors in bank notes meaning, of course, so much more bank notes in circulation. Such being the case, the natural inference ought to be that the provision relative to the cash reserve, making one-third the minimum ratio—whether it ought to be just one-third

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may be questioned, but this is irrespective of the precise ratio—should be extended to the deposits. This would be all the more logical inasmuch as the total of the deposits—this is evidenced by the statistics—fluctuates absolutely and relatively much more than the amount of the bank notes, besides which the deposits are to a much greater extent concentrated in the hands of single individuals, so that we have to face the possibility of the withdrawal of much larger sums at one time. But if we do not propose to go so far, we must be all the more willing to concede—inasmuch as in reality, even if not with reference to normal conditions, the reserve of the Reichsbank, which is the most liquid of all coverings, has to serve as a protection, not merely for the bank notes, but also for the deposits—that it is necessary, at least, to introduce a declaration to this effect: That as long as the regulations relative to a reserve made up of cash and liquid resources apply to the notes of the bank only, the one-third cash covering must at all times consist of gold.

This would necessarily lead to changes in some of the other provisions, particularly in paragraph 17, and also in paragraph 18. In this connection, I should like to call your attention to what seems to me to be at least an accidental omission in the text of the law. The way it stands is this:

“The Reichsbank is obliged (*a*) at its main office in Berlin, immediately on presentation, (*b*) at its branches, in so far as their cash and monetary needs permit, to redeem its notes for any holder who applies in current German money.”

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We should now have to say, "In German gold coin." This would be consistent and would be in keeping with what we propose to do and what I have been advocating. The law reads, "at its branches, in so far as their cash and monetary needs permit." Here we miss—this is the omission—the expression "immediately." For, if we look carefully at the wording of the whole thing, we see that the word "immediately" is introduced only under the rubric (*a*) in connection with the redemption of the bank notes at the main office, while it is lacking where the branches are mentioned, and here the word must by all means be inserted.

I think we ought to accept the suggestion that has been made, and which I feel bound to support, to the effect that the law shall read "immediately" also under the second rubric, where the branches come in, and then go on to say, "but, at the furthest, within a reasonable time." We might say, "twice twenty-four hours," or we might adopt the wording of the provision in the law relating to the Reichsbank (sec. 44, No. 4), which is still in force, relative to the obligations of the private banks of issue—of which there were many more at the time of the enactment of the law—"at the places where redemption is obligatory, Berlin and Frankfort, the notes of the private banks are redeemable, at the latest, on the day after the day on which they are presented" (that is to say, we have to wait only a day). If that strikes us as going too far, we might make it "within forty-eight hours" or "within two days," or something of the sort, in which case we should be doing justice to the claims,

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practically involved in this matter, in behalf of the interests of such places as Bremen, Hamburg, and Cologne. Having adopted such strict regulations, which are nothing new with respect to what we have hitherto assumed, we can safely say that the investment of the notes of the Reichsbank with the quality of a legal tender is something altogether unobjectionable. We shall proclaim *urbi et orbi*: "We are redeeming our bank notes, not in 'current money,' but in gold, and we bind ourselves to do it."

I shall conclude with an observation which I have already made, which is, that we can never afford to lose sight of the fact that we are obliged now and in future to face political crises no longer on the basis of the silver standard, but on that of the gold standard. This renders the situation more difficult. That is all the more reason for our exerting ourselves to the utmost to avoid being drawn by the mere conditions of our gold standard into a position that will render it more difficult for the Reichsbank to keep up its cash payments. Once more, therefore: Strengthen the Reichsbank as far as practicable and let us have a redemption fund in gold for the imperial treasury notes and silver currency. I am not quite as optimistic as Herr Fischel, to whose utterances concerning Russia I can not help reverting. It is certainly remarkable that Russia should have succeeded in preserving her monetary standard in her last great political crisis. But if the political disturbances a year or two ago had gone a little further, she, too, would have

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been reduced to the necessity of suspending the redemption of her bank notes. We in our country are now placed in a more difficult situation than before. This has come to stay, and it is due to the gold standard, for whose preservation we ought to take special measures along the lines which I have indicated.

To sum up, then, I will say: I am of opinion that at every place where the expression "current German money"—for the sake of redemption and covering—occurs in the bank laws we should now say "German gold coins, gold bullion, and foreign gold coins, the coinage price of bullion being 1,395 marks," and that there should be a statutory provision, in case we are not willing to have the private banks redeem their notes in those of the Reichsbank, making it absolutely obligatory for all such banks to redeem in German gold coins. Then no one could think otherwise than that as long as this legislation continues to exist and is in force the Reichsbank and the private banks of issue are obliged even in critical times to redeem their notes in German gold coins, even if the notes of the Reichsbank are a legal tender. This should go into the laws as clear-cut as possible, together with the time limit in the case of the branch offices.

The CHAIRMAN. I will now request the members of the commission to prepare their opinions regarding Questions IV, B and C. I declared yesterday that I, for my part, was perfectly willing to accede to the desire of the gentlemen who are still waiting that we should get through, if possible, to-day. Whether it is possible will

depend, of course, on the members. I am ready, therefore, to go on working to-day, with a noonday recess, say, from 2 to 4 o'clock, until 8 o'clock. I am prepared, moreover, in case we should not get through in spite of that, to let those of the members that are waiting who can not come on Monday have the floor to-day still, in order that they may take up Point V as soon as we have disposed of Point IV, so that on Monday we should have only the remaining members, which will make it possible for us to have the opinions of all the members on that day.

Herr Gontard has the floor in accordance with the order of the day.

Mr. GONTARD. Gentlemen, I am one of those who are perfectly willing to stay here the whole of next week, if it is necessary. I shall, however, take the liberty of making a suggestion that may perhaps help us to abridge our discussions. I do not believe that there will any longer be any essential differences of opinion among us in regard to Questions IV and V. Now, there are a number of gentlemen in this commission who, for various reasons, have not had the floor during these discussions. Whether it is desirable that our views should all appear in print here is a question which I, as far as I am concerned, should answer in the negative. But I believe there are quite a number of gentlemen who would like to have their views regarding individual points in printed form. I have been thinking, therefore, that it might perhaps be well to allow those of the members who desire it to hand in a written opinion later on, to appear as a supplement

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to the report of our discussions, the managers of the Reichsbank being privileged, of course, to do as much striking out as they wish.

The CHAIRMAN. If some one or other of the members of this commission is unable to attend, there is no objection, as far as I can see, to such a proceeding, but otherwise I hardly think it would work. The character of the discussions of this commission, we must remember, ought to be such as will give us the benefit of oral expressions of opinion, which will make it possible for the members of the commission, as well as for those who represent the Government, to correct their judgments through the means afforded by the debates. I am of opinion, therefore, that what Herr Gontard has suggested should serve only for an emergency, in such cases only where members are unable to be present at the discussions.

Mr. SCHINCKEL. I shall try, gentlemen, to be as brief as possible. In regard to Question IV, B, I do not think it ought to be answered in the affirmative at once without reservation. I should not consider it desirable that the stock of cash in the Reichsbank should be strengthened by means of the withdrawal of 50-mark and 20-mark notes from circulation, but to my mind we have a right to expect, after its notes have been declared a legal tender, that the Reichsbank, always under the assumption that it will provide ungrudgingly all the gold that the needs of business require, will place at the disposal of business as many 50-mark and 20-mark notes as may be wanted.

In regard to point C, "by diminishing the need of circulating media through extension and intensification of the

deposit-and-transfer (*giro*) check and clearing system," I can dispatch it in a few words, as I have been urging this course for years in my speeches and writings. It is hardly necessary for me to say that I regard the system of exchanges by means of deposits, transfers, and drafts as much more important than the system of payments by means of checks, and the Reichsbank ought therefore to do its best above everything else to extend even more than it has done hitherto that system of deposits and transfers in the German Empire which it has instituted in such a creditable manner. You will rightly infer from this that I should not like to see the Reichsbank putting up the figure of the minimum amount of noninterest-bearing deposits. Such a step will not expand the system of payments by means of deposit accounts, but, on the contrary, will restrict it. I understand perfectly that it is natural for the Reichsbank to exact a certain compensation for its trouble. I do not indeed mean to find any fault with the policy which the Reichsbank has hitherto pursued in the matter of fixing the minimum amount of deposits. It may perhaps have appeared rather tightly drawn in a way, as several of the experts have maintained. Judging from my personal experience, however, I have certainly no right to complain. What I know, gentlemen, is, that when the deposit system will have attained the dimensions for which I am praying, everybody will be able to afford to keep a balance as large as that on which the Reichsbank has hitherto insisted as a minimum in order to pay it for its trouble. I am, however, decidedly opposed to increasing this amount, for the effect would

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simply be, as one of the experts has pointed out, to lead the private bankers to take hold of a branch of business—the transfer of funds from one locality to another by means of drafts—which, in my opinion, ought to belong by all means to the Reichsbank and of which the private banks ought to keep clear as far as possible.

I come now to point 2, the acceptance on the part of the Reichsbank of interest-bearing deposits. This is the one point in the whole question which may possibly still evoke divergent expressions of opinion. I hardly think, however, after the talks that we have had in this commission the last few days, the proposition will be entertained of imposing a fresh burden upon the Reichsbank in the way of such deposits. It ought to be our sole endeavor, gentlemen, to improve the condition of the Reichsbank. One way of doing this is to strengthen the asset side of the Bank's finances. Just the contrary would happen if we were to add fresh items to the liabilities column, for which, as we have seen, it is wisely provided that there shall be a cover on the opposite side, and we have seen, moreover, that as long as it is our purpose to maintain the gold standard, this latter item must be made up more or less of gold. I have not the same apprehensions regarding the deposits subject to draft as I have with respect to interest-bearing deposits. The former I know are not going to decrease at all even in a time of crisis. It will in a way be almost impossible for them to diminish, for no one who is carrying on an active business can get along without some kind of credit balance in the Reichsbank. As a matter of actual experience, a large

part of the total deposits in the Reichsbank are, so to say, on the road, being in process of transfer from one locality to another, and therefore are quite incapable of being withdrawn from the Bank. And for my part I am sure that everyone at a time of crisis, and just at such a time, is more anxious to increase the balance which he has subject to draft at the Reichsbank than to decrease it. I therefore regard the danger to the Reichsbank arising from the mass of deposits subject to draft as extremely slight and the need of a cover for their protection equally slight. It would be altogether different if the Reichsbank were to go into the business of taking deposits on which it paid interest. The interest-bearing deposits would remain in the Reichsbank only so long as the increased security, which of course attaches to them in the eyes of the public, is in keeping with the rate of interest which the Reichsbank is willing to pay. But when in a time of crisis—it is by no means necessary to think of a war, as this applies to a purely economic crisis—the rate of interest even at very safe banks that receive deposits rises so far above what the Reichsbank is disposed or is able to allow, the interest-bearing deposits will, in the natural order of things, be withdrawn from the Reichsbank at the most inopportune moment.

I should also like to dispel an illusion under which Herr Raab seems to have been laboring, if I understood him correctly. He seemed to think it would be a good idea if the Reichsbank were to accept deposits also from our German brethren in foreign countries—that is what I understood him to say—and establish a branch abroad.

Mr. RAAB. NO.

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Mr. SCHINCKEL. It is utterly out of the question, gentlemen, for the Reichsbank to go out of Germany in quest of business, quite apart from the fact that it would be unsuccessful. Indeed, it could not obtain a concession anywhere in the New World. I do not see, therefore, that we need pay any heed to such a suggestion. But even as regards the mere matter of receiving deposits from our countrymen living abroad, I do not believe that anything could come of that either. Our German brethren live in countries where they have altogether different notions in regard to interest and also entirely different notions respecting the security of investments. They do not appreciate the advantage of having their deposits at the Reichsbank sufficiently to be satisfied with the rate of interest—so very low according to their notions and the standards of the New World—that the Reichsbank would be able to allow. We ought, therefore, not to regard this as inducement for making a fundamental change in the organization of the Reichsbank. I am convinced that the system of interest-bearing deposits would not result in any advantage for the Reichsbank and that instead of improving its position, it will make it all the more complicated. I can not express this better than by saying: The introduction of interest-bearing deposits would mean the imposition of a needless burden upon the Reichsbank.

Now, as to the matter of the purchase of checks. Of course, if the managers of the Reichsbank feel like going into the business of buying checks, I should certainly be in favor of legally empowering them to do so. But, indeed, I can not imagine of what use the buying up of

checks would be to the bank. I am a believer in the system of transfers by means of deposits and drafts, and in my eyes, in spite of the laws regarding it, the check remains a pitiable instrument of exchange, and every bank manager would be glad if, instead of seeing these things fluttering into the bank by the ten thousand and hundred thousand, he were never to catch sight of a single one of them. But we have them once for all, and if the Reichsbank thinks it would be a good thing to buy them also, I have no objections on the score of principle, and I shall object just as little in the case of domestic checks as in that of checks on foreign places. If this whole matter of the purchase of checks is thought of with reference to checks on foreign countries only, then, of course, the Reichsbank ought to be allowed to consult its own interest.

The CHAIRMAN. Pursuant to a request that has been made to me, gentlemen, I wish to say, with reference to the question of the small bank notes, that the further experience of the Reichsbank in the course of the summer shows that these notes are gradually obtaining a firm hold in our circulation. It was found that the amount of small notes in circulation on June 30 was 273,800,000 marks and on September 30, 279,600,000 marks, so that the sum of 300,000,000 marks, representing the maximum amount at present emissible under the law—which, not reckoning some 9,000,000 or 10,000,000 marks that naturally had to remain as a sort of reserve in the various offices of the bank, was completely absorbed in the circulation on December 31, 1907—was almost entirely taken up at the other quarter days.

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I have also been asked whether it is not possible to give more definite figures in regard to the displacement of gold by small bank notes. This is impracticable, gentlemen. I made an attempt to furnish an approximate estimate to this commission in the spring, comparing the amount of notes in circulation on December 31, 1906, with the amount on December 31, 1907, and proceeding on the assumption that the fifty-mark notes have displaced the larger bank notes and also the larger treasury notes, and that the smaller notes, to the extent that this has not been done by the reflux of the treasury notes of over twenty marks, have displaced the gold and I arrived at this result—one, however, which, in the nature of the case, could only be submitted with all possible reservation—that it was safe to assume that in the year 1907 approximately 80,000,000 marks of gold had been displaced by the small notes and gone into the vaults of the Reichsbank. But I repeat that I wished it clearly understood at the time that this conclusion was offered with every reservation, for there are factors that can be adduced in favor of a higher as well as of a lower estimate. On the side of a lower estimate—as Doctor Arendt has already pointed out—we have the experience that our bank-note circulation is all the time increasing, which might lead to the conclusion that the accession of about 80,000,000 marks of small notes to the circulation ought, perhaps, to be regarded wholly or in part as expressing the natural increase in the bank-note circulation and not the displacement of that amount of gold.

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But on the other hand, gentlemen, there is in favor of a higher estimate the plausible assumption that the decrease in the thousand-mark notes, the amount of which had at the time in question fallen off by 62,400,000 marks, was not owing to their having been displaced by the small notes, but was due to changed conditions, especially with reference to the development of the system of deposits and transfers, and experience has shown that in the last two years the number of 1,000-mark notes has materially diminished. But if we assume that these two factors—the natural increase in the bank-note circulation on the one hand, and, on the other, the displacement of the 1,000-mark notes, not by the small notes, but through the increasing use of bank accounts and transfers—will in a rough way counterbalance each other, then my estimate, with the above reservation, would again be correct, all the more so because I have been taking only the two dates December 31, 1906, and December 31, 1907. On December 31, 1906, there were, however, already, in round numbers, 100,000,000 marks of small notes in circulation. These I preferred to leave out of account in my calculation and sought to obtain a result entirely with reference to the indication afforded by the accession of 200,000,000 marks to the circulation in 1907, and for this reason I consider it very probable that my figure of 80,000,000 marks for the gold displaced was rather too low than too high. To give absolutely correct figures and to go on making comparisons from year to year is a practical impossibility. The fact is, however, that our small notes have in a constantly increasing measure

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become part of our currency, and that an amount equal to that of the maximum issue under the existing law—300,000,000 marks—is almost entirely absorbed in our circulation.

Mr. KAEMPF. I agree fully, gentlemen, with what the president of the Reichsbank has said regarding the small notes. Whosoever has busied himself with the practical details of our monetary circulation will admit that the public has accepted the small bank notes, at first, it is true, with hesitation and even with reluctance, but afterwards more and more willingly, and that it has firmly held on to them. The fear expressed at the time of the introduction of the small notes, that we should come down to a paper basis, has by no means been realized. It is hard to conceive, indeed, how it could have been realized, considering that a 20-mark bank note is nothing else than a part of a 1,000-mark bank note, and if a 1,000-mark note does not make us fancy that we are coming down to a basis of paper money there is no reason why we should feel differently in the case of a 20-mark note. I believe, however, that additional efforts should be made, or, if they are being made, that they should be rendered more effective, toward enhancing the popularity of the small notes and making the public eager to hold on to them. When I reflect that in former years at the quarter days no less than from 150,000,000 to 180,000,000 marks of gold flowed out of the Reichsbank into the country's circulation, only to return after the lapse of two or three weeks again into the Reichsbank, and when I perceive that even at the present time, in spite of the fact that things have

apparently improved by reason of the small notes, about 120,000,000 marks of gold are regularly withdrawn from the Reichsbank about the 1st of October, in order to satisfy the demand for currency in the Empire, I can not help asking why these 120,000,000 or 150,000,000 marks of gold can not remain in the Reichsbank these two or three weeks and the public accustom itself to getting along with the small bank notes during this interval and making use of them to satisfy the needs of circulation.

I believe a great deal could be done, especially if the imperial authorities were to cooperate through the various fiscal offices, toward making the small notes enter into the circulation more than they have done hitherto, although I am aware that something has already been accomplished in this direction. I look upon the issue of small notes, gentlemen, and their permanent retention in the circulation as something calculated to be of the utmost importance at a time of crisis. [Quite true!] I am persuaded, therefore, that it is a mistake to persist in not going beyond the sum of 300,000,000 marks in the issue of small notes, the amount agreed upon with the Reichstag. I believe that the more the public gets accustomed to these small notes in calm and peaceful times the easier it will be to meet the demand for currency in critical times in this very way, the issue of bank notes of small denominations.

If, as I have said, the issue of small bank notes on as large a scale as possible is an excellent means of averting serious trouble in times of crisis, still more is this the case with the spread, expansion and vivification of the

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system of payments by means of transfers, drafts, and checks. When the public has once become accustomed to this method of making payments, it will not be eager to wean itself from it even in critical times. On the contrary, the more the public has accustomed itself to drafts and checks, the more it will make use of such a mechanism of exchange when a crisis is at hand. We ought consequently to do everything within our power to make the system of payments by means of drafts and checks still more general than it is at present. One way of doing this is to have the matter constantly agitated before the general public. Such an agitation was started a year and a half ago and it was attended with excellent results, but we are far from having accomplished what ought to be accomplished in this direction. Even at the present day a great part of the public, including those engaged in business, do not know how to go about making use of drafts and checks, and it is therefore of the utmost importance that all who have a hand in this machinery of exchange—chambers of commerce, banks, and private bankers—should exert themselves to the utmost to enlighten the public still further and that they should try to remove every complication, each little obstacle, anything that looks like an objection; in short, everything that might be in the way of the attainment of the desired aim. I agree entirely with Herr Schinckel when he says that the system of payments by means of drafts is superior to that by means of checks. But it is impossible, gentlemen, to introduce the system of payments by draft everywhere. There are very great difficulties connected with

it, especially in the smaller cities. Even when it comes to such a place as Berlin, great obstacles are encountered, it having been found impracticable to make such excellent arrangements as exist in Hamburg. And so we shall have to do both things, encourage the system of payments by draft and remove all obstacles that hinder the use of checks. The use of checks, it is true, has been attended with all sorts of abuses, springing from conditions inherent in men's habits and inclinations. I refer to the habit of the German of trying to get petty advantages for his individual self out of this institution, which should be an institution existing for the benefit of the general public. The mechanism of exchange by means of checks suffers from the fact that people believe it enables them to earn a few days' interest. For this reason checks are made out that are not meant to be redeemed at as early a date as possible but which are intended to operate in such a way as to cause their redemption to be deferred as far as possible. Checks are set afloat that are compelled to return to the place where they were made out, or else become lodged in Berlin, whence inquiries have first to be sent out by the bank to the provinces to make sure that they are all right, which means another four or five days. In short, this has the effect of producing a certain distaste for the whole system of payment by check.

Under these circumstances the question as to whether the Reichsbank ought to go into the business of buying checks is altogether a proper one. I can not see any reason why the Reichsbank should not buy checks if they offer the same security as bills. Of course a check has no

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acceptance on it, consequently the security as regards the acceptor is wanting. But if, in addition to the drawer of the check, there are various indorsements on it and these indorsements collectively offer the same security as a bill of exchange that has been accepted, there is no reason why the Reichsbank should not buy such checks, and if it should buy them, the objections to the present system of payments by check would largely disappear. If a person, with the loss of a few days' interest, can sell his check to the Reichsbank several days before the expiration of the time within which it is to be presented, he will be very glad to do it. But there are other ways of making the system of payments by check more popular through the agency of the Reichsbank. It was pointed out by the experts that the cashing of checks for the depositors of the Reichsbank might be greatly facilitated and that in this way, there being a loss merely of a couple of days' interest, the objections raised at present in regard to the circulation of checks drawn on secondary places would be effectually met. I believe, these circumstances being taken into account, that on the whole I can say I am in accord with the views expressed by Herr Schinckel.

I can say this especially in regard to the question of the taking of interest-bearing deposits by the Reichsbank. Herr Schinckel, gentlemen, has shown us what a difference there is between ordinary deposits and interest-bearing deposits. The ordinary deposits are not in the nature of a credit balance which a person has at the Reichsbank because he is especially anxious to have the Reichsbank his debtor. These deposits are intended to serve as a basis

for business transactions with the Reichsbank and in particular for those of the nature of transfers of money. Nor could the public—that is to say, the business world—get along without these exchange transactions in connection with the Reichsbank at a time of crisis. On the contrary—and here I agree fully with Herr Schinckel—at a time of crisis the business world will have to be all the more careful not to clog this copious spring, the Reichsbank. And, therefore, in the event of a crisis the ordinary deposits will by no means be exposed to the kind of assault to which interest-bearing deposits are likely to be subjected. But there is a point to be considered apart from this. The Reichsbank is not preeminently a credit institution either with respect to its assets or its liabilities. Its main function is to regulate the circulation in the country. If the Reichsbank is going to take interest-bearing deposits—that is to say, if it is going to receive credit—it is necessarily compelled to give credit, for interest-bearing deposits must, of course, be put out at interest. The Reichsbank is bound to get back the interest and the only way it can do it is by means of a credit transaction. And the necessity of restraint with respect to such transactions on the part of the Reichsbank was manifested in a striking way in the course of the past year, and we have heard from the lips of the president of the Reichsbank himself what strenuous efforts have been made, not only formerly, but just at this very time, to prevent the Bank as far as possible from becoming a credit institution instead of remaining what it is and what it ought to be with respect to the public welfare—the regulator of the monetary exchanges and the circulation in the country.

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I will close my remarks by saying that in order that the Reichsbank may be enabled to have at its command at all times immediately available resources sufficient to meet all demands, we can not be too energetic, not only in encouraging the habitual use of small notes but also in developing and expanding the system of payments by means of transfers, drafts, and checks.

The CHAIRMAN. I should like to make just one remark, gentlemen. The Direktorium of the Reichsbank has already more than once taken up this matter of the buying of checks in a thoroughgoing manner, and we have come to the conclusion that a number of arguments may be advanced both for and against the purchase of these checks, that even if the necessary powers should be conferred upon us by a legal provision, the practical details would require the most careful consideration, and that it is not yet quite certain that the purchase of checks would offer any material advantage as compared with readier and quicker methods of cashing them. I desire to say that I share the conviction of Herr Schinckel that the system of payment by means of transfers and drafts is superior to that by check and that its extension is more imperative than that of the other. But there is one argument, on the other hand, gentlemen, which I am going to single out from among the many that might be advanced in favor of the buying of checks, and I will request you to give us your opinion regarding it. I should like to ask whether it is not likely that a stimulus would be afforded to the business of effecting payments by means of deposits and drafts if the Reichsbank were

to restrict the purchase of checks to its depositors, making it a condition in the case of cash checks that the discountant has a credit balance in a deposit account and in the case of an account check that both the discountant and the drawee have deposit accounts. Does it not seem in your opinion that the deposit and draft business would thereby receive an additional impulse—that is to say, that there would be an increased number of deposit accounts?

Mr. PETER. I desire to say, gentlemen, that I am in accord with the view expressed by the member who has just had the floor, President Kaempf, relative to the increased issue of the fifty and twenty mark notes of the Reichsbank. I had the impression that the present maximum of 300,000,000 marks would suffice, for it has been my experience in Baden that the public does not take to these notes very readily. I trust, however, that those who have this matter in hand will succeed in getting the public accustomed to them, and I am not opposed on principle to extending the issue beyond the 300,000,000 marks in case of need. I consider this a means of strengthening the stock of gold in the Reichsbank, although it is a minor expedient, I admit. The more effective means in my eyes is the extension of the system of payments by means of deposits, transfers, and drafts. Our real salvation, gentlemen, would be in casting off the expensive method of paying in gold and bank notes—one attended with more or less danger to those concerned—in favor of the method of payments by means of drafts, in which money plays no part, such as exists

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in England and America and such as here in Germany has worked so eminently well in the case of Hamburg. There is no doubt whatever that the need for currency can be very materially lessened by increasing the range and efficiency of the system of deposits, checks, and clearings, and it can not be denied that the efforts that have been made on every hand for the popularization of the method of payment by check and draft have already borne considerable fruit. State and municipal governments, for example, are offering their officials an opportunity of having their salaries placed to the account of some monetary institution. I would ask leave in this connection to mention a point to which I am particularly anxious to call your attention and in regard to which I shall have to go counter to the statements of some of the experts and members of this commission. I want to tell you, gentlemen, that even artisans and those having small industrial establishments have learned to know and appreciate the advantages of checks and drafts. It is the cooperative institutions that have made it their task to get this large class to participate in the benefits of this system of exchange.

You will be able to see how far they have succeeded, gentlemen, from a few figures which I am going to submit to you, taken from the annual of the union of the various cooperative institutions of the German Empire. According to this yearbook only 327 cooperative institutions have made reports concerning the volume of check transactions. During the past year 636,000,000 marks were paid in and 618,000,000 marks paid out.

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The number of check accounts in these 327 cooperative institutions was 44,657. The increase during the year in the amount paid in and the amount paid out was in each case over 100,000,000 marks. I must add that there are a number of such institutions which make no reports concerning the volume of check transactions, owing to the fact that such transactions are entered as current-account business. The figures would be swelled very considerably if the business transacted in these institutions could be reckoned in.

I considered it my duty, gentlemen, to submit these figures to you in order to show you how this kind of business, transacted by people of little means, comes, through the intermediary of the cooperative institutions, within the range of the activity of the Reichsbank and how those engaged in the handicrafts and petty industrial operations possess in the cooperative institutions an agency admirably adapted to their needs in the matter in question. I feel confident that the introduction of the system of postal checks, which is to provide a mechanism of exchange for the modest spheres of business activity, will produce good results that will become more and more manifest as time goes on and which would be still more pronounced if the charges could be lowered. That the interests of the cooperative and savings institutions would be seriously affected by the system of postal checks I do not believe, but even if this should be the case, they would still not fail to recognize the service that such a system would render to the public.

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I should lay special stress upon the following suggestions from among those made by the experts:

1. All banking houses should use every means in their power to compel all their customers to have current accounts with the banking houses.

2. The Government's authorities should make it their business, possibly by offering inducements, to encourage the custom among officials of having their salaries placed to their account in their bank.

3. Every banker and, if possible, every private business man—I include all those engaged in industrial operations—should have his banking connections inscribed on his letter paper, billheads, etc.

Banks, bankers, and cooperative institutions are often in the habit at present of impressing upon their customers in special pamphlets and leaflets the advantages of the method of payment by check and transfer, and we may confidently expect that in course of time the desired result will be realized.

In regard to the establishment of an imperial clearing system, I can say that I am favorably impressed with the idea, but I am convinced that the difficulties to be encountered would be so great that it would be well not to undertake anything at the present moment.

I believe, gentlemen, that in the system of payment by transfer managed by the Reichsbank we have an ideal institution, an institution which does not exist in such a state of perfection in any other country. [Quite true.]

The more bank accounts there are—the more people are in the habit of availing themselves of the agency of

monetary institutions—the easier it will be to extend the benefits of the deposit-and-transfer system of payments in connection with the Reichsbank to the entire domain of business. Then there will no longer be any necessity of instituting a special clearing system for the Empire; we shall have one. But if we should undertake to raise the minimum amount of noninterest-bearing deposits in the Reichsbank, this would, in my opinion, curtail the volume of exchanges effected by means of deposits and transfers, and thus lead to a result the contrary of that which we desire. The last general raising of the minimum amount of noninterest-bearing deposits, which created much dissatisfaction, appears to me to afford the bank a sufficient compensation for its trouble. I am opposed, therefore, to making the minimum any larger.

I am likewise opposed to the taking of interest-bearing deposits by the Reichsbank. I do not believe that the resources of the Reichsbank would thereby be strengthened, as the deposits would be withdrawn from other credit institutions, which in their turn would be obliged to have recourse to the Reichsbank in order to satisfy the demands for credit made on them. But the principal reason for my opposition is the harm that would be done to the savings and cooperative institutions, which would in consequence find it difficult to satisfy the local demand for credit on the scale on which it is done at present. By a wise conduct of the deposit business, the cooperative associations which manage their affairs on the basis of self-help—I lay stress upon the term self-help, for I am

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speaking of those institutions that decline to avail themselves of cheap government credit—are enabled to satisfy the demands for credit on the part of their members at a low rate of interest. It is, indeed, a source of gratification to every one interested in the lot of the people to know that the members of the cooperative associations—and these members are recruited mainly from the industrial classes and the rural population—did not suffer so very much from the financial stringency of the past year, not having been obliged to pay such high rates of interest as those who had a large capital invested in trade or industry. And these people of the middle class, whose elevation, gentlemen, you have at heart, would be seriously affected if the Reichsbank, with the weight of its reputation as a place of deposit, were to enter into competition with the cooperative institutions, for, as one of the experts, Herr Crüger, counsel for such institutions, has affirmed, there are cooperative institutions in which individual deposits up to a very large sum, certainly tens of thousands of marks, are by no means a rarity. I agree moreover with those who believe that the Reichsbank ought not to be at all anxious to add to its weighty duties, as regulator of the circulation, the burdens of a regular deposit and credit bank. For we can not shut our eyes to the fact, gentlemen, that there are times—such times as we ourselves have already experienced—when deposits may be a burden and become a source of loss.

I declared myself already on the occasion of the hearing of the experts in favor of empowering the Reichsbank to buy checks, and I will now answer in an unqualified

affirmative the interrogatory respecting this point. In order to promote the system of payments by means of deposits and drafts, I should restrict the discounting to transactions with those having relations—I am referring to deposit accounts subject to draft—with the Reichsbank and to those checks which have at least four days to run before the expiration of the time within which they have to be presented. Owing to the fact that the check is brought to the Reichsbank and the amount of it placed to the account of the depositor, its further circulation—a source of legitimate vexation—is avoided, as likewise the equally undesirable cash payment. In regard to this matter I agree altogether with Herr Schinckel, when he asserts that the method of payment by check, as it exists at present, is a source of constant vexation. [Hear, hear! Quite true!] I find that occasionally, in place of the drafts of the Reichsbank, which are in such favor, people receive checks that are payable at small places and which consequently have to be sent there, so that the person receiving the check is put to expense by reason of the correspondence that has to be carried on, and loses money besides in the way of interest. This makes him indignant and impels him to go to his bank or cooperative institution with baseless charges. The improper use of checks hinders the extension of the system of payment by means of them. I should like to see checks used as a cover in the same way as short-time bills, as I naturally take it for granted that the Reichsbank will take in only those checks whose indorsements afford adequate security. Checks with nothing but a single signature would, of course, not

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be available, as one or two of the experts imagined they might be. I am unreservedly in favor of the discounting of checks with the limitations to which I have referred, and would merely suggest, with reference to the discount charges, that it might be well to fix a minimum of four days as the time to be reckoned and to make the minimum corresponding charge 30 pfennigs in the case of checks for less than 100 marks and 50 pfennigs in the case of larger amounts. If, in addition to this, the Reichsbank could do something in the way of facilitating the cashing of checks, the business world would be very grateful.

Doctor RIESSER. An increased issue of 50 and 20 mark notes, gentlemen, which, together with the legal tender provision relative to the notes of the Reichsbank, I regard as a preparation for crises and troublous times, is something which, in spite of the objections adduced yesterday, I should declare to be imperative, on the assumption, however, that, as heretofore, no attempt will be made to force these notes of small denomination upon the circulation, a proceeding, indeed, that could not succeed in the long run. In so far, however, as it is practicable without such compulsion to get small notes to circulate—and, in spite of the predictions to the contrary, we have succeeded in a pretty short time in issuing them almost to the full amount of 300,000,000 marks—such a step will undoubtedly serve in a measure to displace the gold that is needlessly used in business in the payment of wages and salaries and to cause this gold to go to the place where it will render three times the service, the Reichsbank.

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I desire to state distinctly, in order not to exaggerate, that this displacement of gold will take place to a certain extent only, inasmuch as the 50-mark notes will displace in part the 100-mark notes and imperial treasury notes and not gold, while the 20-mark notes will not only discharge this function in part or else take the place of the small treasury notes, but will in great measure take the place of the double crowns hitherto used, especially in the retail trade and in the payment of salaries and wages. If the issue is kept within the assigned limits, the apprehension expressed by some of the experts that in times of crisis the volume of small notes might lead to a premium on gold, or, in other words, a depreciation of our currency, will certainly not be realized. Within these limits, too, the increase in the stock of gold in the Reichsbank will be a permanent one, as experience tells us that the small notes remain in circulation longer than the large ones. The objection has been raised in regard to the small notes that we have been going to greater lengths than France, whose smallest denomination is 50 francs, amounts to nothing, either, as we find by actual experience that the 20-mark notes are circulating much more extensively than the 50-mark notes. On December 31, 1907, the amount of 20-mark notes in circulation was no less than 115,300,000 marks, as against 86,800,000 marks for the 50-mark notes.

I must say for myself that I can not share in the apprehensions of those who imagine that the increased volume of small bank notes, which one of the experts has constantly been dubbing "paper money" without any

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reason, will lead to a flooding of the circulation with paper and even a displacement of the gold standard by a paper standard. There would indeed appear to be little ground for such an anticipation when we consider the statement made to us that all the other kinds of currency had decreased in the year ending December 31, 1907, by about 116,000,000 marks; the 1,000-mark notes by 62,400,000 marks, the 100-mark notes by 29,500,000 marks, and the imperial treasury notes in circulation by 24,000,000 marks, so that on December 31, 1907, the increase in the volume of paper currency, after deducting the amount of this decrease in the other kinds of notes, was only 86,000,000 marks, and on April 30, 1908, it was no more than 45,300,000 marks.

With the above-mentioned reservation that no pressure is to be exercised that might tend to drive gold from the channels of trade or to weaken the by no means inconsiderable reserve of gold in the possession of the banks, which we absolutely need as a security in a time of crisis, I am in favor of increasing the issue of 50 and 20 mark notes in such a way that the additional volume will be gradually injected into the circulation *pari passu* with the demand, and I believe that there ought to be no limitation of the total amount or of the amount of the notes of any given denomination. I assume, of course, that arrangements will be made so that all notes that come back to the Reichsbank in poor or insanitary condition will be replaced by fresh ones, and I am in favor of making it obligatory for the Reichsbank to redeem the 20-mark notes also in gold.

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As regards the necessity of restricting the need for hard cash by the extension of the system of payments by means of checks, drafts, and transfers, I have already expressed my views on this subject in print so frequently and in such detail that I may be permitted to refer to my publications.^a It would, on the whole, be a futile assumption to suppose that our public at large can be trained to the use of this mechanism of exchange otherwise than by a patient course of enlightenment, which may take generations, by means of publications, oral teachings, and example. I will not deny, of course, that something may perhaps be accomplished in a modest way by holding forth in certain cases the prospect of gain resulting from the employment of these methods of payment in place of the use of hard cash. I may remind you in this connection of the suggestions of one of our experts, Michalowsky.

I should, however, like to place before you somewhat more in detail the suggestion which I submitted some time ago to the direktorium of the Reichsbank and again just now to the experts relative to a system of check clearings. We have at present, as the gentleman who had the floor before me pointed out, in our system of payment by check a state of affairs which is in extreme measure working counter to the general adoption of this method of payment, so essential as a stepping stone to the system of drafts and transfers. Nowadays every banker is compelled to send a number of checks that are daily indorsed over to him

^a See especially "Scheckverkehr und Scheckgesetz" in No. IV of the publications of the *Mittleuropäischer Wirtschaftsverein* for 1907 and "Die Wirtschaftlichen Ziele und Vorteile des Scheck und Postscheckverkehrs" in the *Deutsche Revue* for January, 1908.

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by people doing business with him to the drawees—country bankers—in all sorts of little places for redemption, which results in great inconvenience, much correspondence, loss of time, and occasionally the losing of interest, and which may interfere—as was shown by the gentleman who has just spoken—with the presentation of a check within the brief prescribed time. It is therefore necessary to devise some means which will serve, on the one hand, to remove these complications in the way of the popularization of the use of checks and, on the other hand, will accomplish that all-important object, the removal from the domain of payments of a large part of the metallic cash held fast in it and the transfer of this cash to the domain of credit. These two aims can, in my opinion, be attained only by means of some arrangement which, on the one hand, will relieve the banker of the necessity of sending his various checks to little bits of places all over the country and which will, on the other hand, make it unnecessary to redeem these checks in cash. Such an arrangement is the system of check clearings which I have proposed.

As there are various practically almost insuperable obstacles in the way of a general imperial clearing house for checks, which would be the best solution from a purely theoretical standpoint only, I propose that in each province, in connection with the already existing provincial clearing house for bank accounts, a clearing house shall be established for checks. The membership of such a clearing house would in the nature of things have to be small, comprising mainly a limited

number of banks and bankers belonging to the place where the clearing house is located, who would at the same time be empowered to act for all the bankers in the province. It would, moreover, be very important that the bankers represented in this clearing house, but who are not members of it, as well as their representatives, who are members, should have connections with the Reichsbank in the way of deposit accounts, which at present—a fact not sufficiently recognized by one of the experts—is very often not the case. When such clearing houses for checks shall have been instituted, the merchant, manufacturer, or whoever he may be, will send the checks which he receives drawn on all sorts of little places, with his indorsement upon them, to his banker, who will send each day's accumulation of these checks in an envelope to his representative at the provincial clearing house for checks. A further innovation will gradually be effected in that checks drawn by a banker's customers will be made payable directly by the representative of the banker at the provincial clearing house. In this way not only will the machinery of check transactions be improved, and consequently popularized and extended—which, by itself, as Herr Schinckel has quite properly remarked, would not be of any particular importance—but what is vastly more necessary, the system of payments by means of deposits and bank-account transfers would be made still more effective. The bankers, who would all be connected with the general system of deposit-account transfers, would then have

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this great advantage guaranteed to them that the balance against them at any particular time, made out at the clearing house, representing the difference between the total amount of the checks drawn on them (including those drawn on them as representatives of other bankers) and the total of the checks payable to them, will not have to be paid in cash, but will be liquidated by debiting their account with the amount of the balance and placing it to the credit of the clearing house and then crediting the accounts of other members of the clearing house with the amount and debiting the account of the clearing house with it. I am convinced that the difficulties in the way of the permanent establishment of such a system of clearings can gradually be overcome by the cooperation of those who would be benefited by it, just as has been the case in England, and I have no doubt in regard to the result, because I feel sure that we have here a means of perfecting our whole mechanism of exchange which in the long run will not be neglected.

I should, on the other hand, be just as little in favor of raising the minimum amount of the balance in non-interest-bearing deposits in the Reichsbank as of the idea of taking interest-bearing deposits, a matter that, indeed, can hardly be dissociated from the former question. For if the Reichsbank were to accept interest-bearing deposits, the inevitable result would be that the banks and bankers would at once transfer to it, in order to get the interest, whatever sums they had in their possession in the way of deposits over and above the prescribed minimum.

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I should oppose a further increase in the minimum amount of noninterest-bearing deposits for the following reasons: The raising of the minimum balance thus far has already had the effect in a number of cases, as the experts have informed us, of inducing depositors to make remittances in cash, in so far as the expense connected therewith was less than the loss of interest on the minimum amount of deposits, and there is certainly danger that a further raising of the minimum balance will impel an increased number to do likewise. In addition to this, a raising of the minimum would be an obstacle in the way of the democratization of the hitherto plutocratic system of deposits and bank-account transfers—I say plutocratic, because hitherto, apart from business connected with the Government, it is mainly the representatives of the great manufacturing interests and the wholesale merchants who have been associated with this system of deposits and payments; or, in other words, it would be a hindrance to the urgently needed extension of the benefits of the bank-account method of payments to other pursuits, just when we are in a position, fortunately, to look forward to such an extension by getting the middle classes and people in the humbler walks of life, whether engaged in agriculture, trade, or manufactures, habituated to making payments by check or draft or through the post-office. That would certainly be a queer economic saltation, very much like an Echternach dancing procession. I am aware that the raising of the minimum balance is urged by many persons on the ground that it is calculated to increase the resources of the Reichsbank and therefore

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to strengthen its position. For my part, I do not believe that the raising of the minimum would have this result except at those times when the Reichsbank itself would hardly be anxious to get such an accession, that is to say, when money was plenty. For, leaving such exceptional times out of account, the additional sum required for the increased minimum balance would have to be provided by drawing upon the means at the disposal of the Reichsbank itself for discounting bills and making loans, so that part of what the Reichsbank would gain in one direction it would lose in the other, which reminds us again of the Echternach procession.

Before quitting the floor, I should like to remind you that the obligations of the Reichsbank in the matter of its deposits are part of its demand liabilities, as much so as its notes, and that these obligations, just as will be the case with the bank notes if they are declared a legal tender, will at all times have to be met by the Reichsbank by payment in gold, and this without there being any provision regarding a one-third reserve such as exists with respect to the notes. It seems to me illogical to make this incongruity more striking by increasing the amount of the minimum balance. I should be inclined, therefore, if I were disposed to allow purely theoretical considerations or broad economic ones to have a determining weight in forming my judgment, to agree with those of the experts who, in behalf of the general utilization by the public of the mechanism of payments afforded by the system of deposits, are in favor of doing away altogether with the feature of a minimum balance. I realize, how-

ever, that the practical objections to this can not be overridden, as I am aware that the Reichsbank is entitled to a reasonable compensation for its trouble and the expenses involved in the management of the deposit and transfer business.

On the other hand, I am opposed on principle to the taking of interest-bearing deposits by the Reichsbank, which, as a matter of fact, would in itself not improve the condition of the Bank, but would render it less favorable. It is not a mere coincidence that the leading central banks of issue, after long and mature consideration and discussion, have again and again kept aloof from taking interest-bearing deposits. There is no doubt that if the Reichsbank is going to allow a high rate of interest on such deposits—with a low rate of interest, this kind of deposit business would exist only on paper—it will be obliged to resort to operations of every kind in order to make good the losses with which it would be threatened on account of the high rate of interest which it was allowing. It would be forced into the position of having to extend its credit business, which would be particularly mischievous if, as might happen, it would have to be resorted to even at the very time that the Reichsbank was endeavoring to counteract the excessive demand for credit throughout the country by putting up its discount rate.

We must not forget also that if the Reichsbank, by dint of allowing a higher rate of interest, should succeed in getting a large volume of deposits, this could only take place, as has already been mentioned, mainly at the

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expense of other institutions—private banks, savings and cooperative institutions, etc.—where such deposits at present accumulate. The result would not only be that these institutions would be obliged to take again from the Reichsbank the sums that are thus prevented from going into their coffers, but that, in so far as this can not be done, the various industries which at present are assisted and have to be assisted on such a large scale by the private banks may, in part at least, be compelled to forego this aid.

And finally it should be said that the serving of notice on the Reichsbank of the withdrawal of large amounts of interest-bearing deposits at a time of crisis might greatly embarrass the managers or deprive them of that cool judgment and power of calm deliberation so badly needed at such times, and such withdrawals might easily have the effect of endangering at an unfavorable moment the one-third reserve required for the protection of the bank notes.

I have still to say a word in regard to the purchase of checks by the Reichsbank. I can not see any material advantage in this buying of checks, which would actually be the imposition of a burden on the Bank instead of something tending to improve its condition, except possibly in so far as the purchase of foreign checks is concerned, although, even if it be merely in behalf of the popularization of the system of payment by check, I should not be disposed to object on principle. In this connection I will say that the view expressed by some of the experts that the purchase of checks might be a substitute

for the system of clearing houses for checks that I have been advocating is altogether untenable. I should make it a condition, however—and it goes without saying—that in the purchase of checks the same precautions shall be observed at least as in the purchase of bills, especially as the former are without acceptance, so that it would be preposterous—let me say here—to entertain the idea, brought forward by some of the experts, of reckoning the checks in the cash reserve of the Bank. I am of opinion, on the contrary, that it is worth while considering seriously, as the president of the Reichsbank has already intimated, whether the purchase of checks should not be restricted to those who are customers of the Bank in the matter of deposits or of loans, so that a cover shall be furnished by the balance in the deposit account or by the security given by the borrower. Of course the whole proposition would resolve itself into a merely academic one unless the Reichsbank made it a point to offer such inducements to the holders of checks as would cause a large volume of these instruments to be brought to it.

Mr. MOMMSEN. I shall be brief, gentlemen, in order not to have to repeat what has already been said. You have heard from the president himself the figures relative to the small notes. I am glad to see that even during a period when there was on the whole but a light demand upon the money market the small notes have practically held their own; and if the management gave its voluntary assurance to the Reichstag that it would not issue more than 300,000,000 marks—there is no legal provision, but merely a private understanding—this took place mainly under

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the impression, which was shared by the management of the Bank, that it would not be possible for a long time to come to get a larger amount into circulation. It turned out otherwise; both the Reichstag and the experts were simply mistaken. [Laughter.] As a matter of fact, the figure of 300,000,000 marks was reached in a comparatively short time, and I am sure, gentlemen, that if we had the statistics we should find that the parties in the Reichstag that are opposed to the small notes are quite ready to take the actual needs of the situation into account and that on the assumption, once more emphasized by Geheimrat Riesser, that no pressure will ever be exercised to get the notes into circulation, there can be no objection to our transcending the limit of 300,000,000 marks. I think this would do a good deal toward bettering the condition of the Reichsbank, inasmuch as the money represented by the small notes in circulation must, in the last analysis, be regarded wholly or in part as an addition to the resources of the Bank.

As regards the further question, gentlemen, that relative to the extension and development of the system of payments by means of deposits, checks, and transfers, there can be no two opinions as to the necessity of what is proposed. As to the manner and time of doing it, very divergent views have been expressed. I, too, am of opinion that we are in fact rather too impatient in regard to this matter. Things do not go as quickly as all that. [Quite correct.] It will probably take a good many years, perhaps decades [quite true], before we can educate the public sufficiently, and if everything does not move so smoothly as some have

anticipated that is no reason why we should consider the steps we have taken altogether futile. Let us wait and see how they are going to work. I really do not see the need of resorting to any special measures. I agree with Geheimrat Riesser in regard to the necessity of a clearing system for checks, and I am convinced that ways and means will be found of allaying the opposition that still exists and which, it is quite clear, comes especially from the provincial clearing houses, or in great part, at least, from the provincial clearing houses. If these had not declined to join the Berlin clearing house, the system would, at least nominally, be in existence to-day. Whether this would practically be such an extraordinary gain, that is a different question. But in this matter also, I am sure the Reichsbank will in the end devise some means of uniting the various establishments into a single system. Whether there is to be one clearing center or several is a question that may have to be left to the future. I myself do not approve at all of the nine or twelve clearing places in connection with the postal check system. It would have been much better to have had but a single one. [Quite true.] But as long as we can not have the single clearing place let us be content to have several, as in the case of the postal check.

It is not necessary for me to add anything to what has already been said with respect to interest-bearing deposits. I concur fully in the views expressed by Geheimrat Riesser and other gentlemen. I consider such a course absolutely impracticable. It would be a dangerous departure from the sound principles on which the Reichsbank is constituted.

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Now, as to this matter of the buying of checks, I must honestly confess that I can not begin to understand—and I have not yet been able to make it out from the opinions of the experts—what possible advantage we can see in it for the Reichsbank. That no business man, in the way business is now carried on, will be willing to have five—or who knows how many—days' interest deducted from his checks in order to have them cashed by the Reichsbank, goes without saying. He has plenty of places where he can have his checks cashed without this loss of interest. I am willing to admit, of course, that when it comes to the smaller towns the matter may have a somewhat different aspect, and on this account, if the idea is to benefit the small places, I should not have any serious objection to making a trial. I do not believe, for my part, that anything will come of it. There is another question, however, the one our president brought up to-day, as to whether the purchase of checks could not be made to serve the purpose of extending the deposit-and-transfer system of payments. Now it seems to me altogether practicable to have an arrangement by which depositors would have the privilege of bringing checks and having the amounts simply credited in their deposit account. But then this would in reality no longer be a purchasing of checks. It would be a way of having a sum of money placed to one's account, a transaction of a kind that occurs in the banking business, and I should consider it a great advantage if the thing could be introduced. It would probably be attended with very good results.

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Then too, gentlemen, we are always told that the checks must have the necessary indorsements, just as is the case with drafts. Such checks, according to our legal regulations, have ten days to run. When a check is set afloat there is but one signature on it, that of the drawer. If the drawer is an individual, he will not answer the purpose at all as regards the Reichsbank, for it is necessary that there should be one or two signatures of firms on the check. Well, how many days do you suppose it will take to get these indorsements on the check? You know that this sort of thing is not done in twenty-four hours. I believe that all this would mean a good deal of inconvenience in practice. However, if the Reichsbank could devise some way of putting the scheme into operation, this question would after all not be so very serious, and it might perhaps be worth while to make a practical test. Still, I must say once more that I can not see how the whole thing can possibly pay with respect to the considerations urged, and, as for the encouragement afforded to the use of checks, I believe there is nothing in it.

Count KANTZ: When the act of February 20, 1906, was before the Reichstag the debate in the full house was, at the desire of the members of the Bundesrat, restricted as far as practicable. The most important discussions took place in the committee of which I was a member. On that occasion the argument in favor of the issue of small notes was put by Count Posadowsky simply as follows: "We must have more gold in the Reichsbank. It is absolutely necessary for us in behalf of our financial

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preparedness to get more gold to flow into the Reichsbank, and in order to replace this gold we must have not merely hundred-mark and thousand-mark notes, but also smaller denominations. Indeed, we can not get along without them in business." The Reichstag recognized the force of this argument and the law was enacted. But in spite of this, gentlemen, these small notes are not popular. [Dissent.] It is not merely on account of their mean appearance that people prefer to take gold. It is easier to count gold, while the notes are apt to stick together. In a word, I do not believe that the small notes are popular. Not long ago I happened to meet a commanding general on the street who had just received his salary in these small notes. He was quite angry and said: "I sent my orderly to the disbursing office to get the money and asked expressly for hundred-mark notes and gold. [Hear, hear.] They gave him small notes, and when the orderly refused to take them he was told, 'Then you'll get nothing.'" [Hear, hear, and laughter.] That's what I call a friendly reception given to the bank notes by the public. [Laughter.] The president of the Reichsbank has just stated that a short time ago at some particular date—I believe it was July—there were 278,300,000 marks of these small notes in circulation and a little later, 279,600,000 marks. I beg to take the liberty of pointing out that at the close of 1907 the amount in circulation in these small denominations was 290,443,300 marks; that is to say, a still larger sum, which shows that the circulation of these notes has quite recently rather diminished than increased.

I personally am not concerned as to whether the bank notes are pretty or whether the public cares for them or not. They are a necessity, once for all, with respect to the attainment of a particular object. I am, therefore, by no means opposed to their becoming part of our circulation. But I know of one instance, at least, where the means employed to introduce them to the public was of a rather peculiar kind. It had the effect, of course, of taking out a quantity of gold from the country and causing it to go into the Reichsbank. For my part, I say, I have nothing against it. I mention it merely to explain why there is, as a matter of fact, so large an amount of these small notes in circulation. I would not infer from this, however, that this kind of currency is very popular.

If, as Herr Kaempf remarked a little while ago, a very considerable amount of gold is regularly withdrawn from the Reichsbank at the quarter days—120,000,000 to 150,000,000 marks—this is bound, I believe from its very nature, if not to come to an end entirely, to come down to much smaller proportions as soon as the bank notes have been made a legal tender. [Quite true.] I assume that this disagreeable phenomenon will thereafter ultimately disappear of its own accord.

And now, gentlemen, I should like to say something in regard to the matter of checks. I had in reality proposed to myself to deliver a little discourse on the system of payment by means of checks. I have gone over all the material that served as a basis for the discussion of the parliamentary bill relative to checks, as well as

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the speeches which Herr Kaempf, in particular, delivered on the occasion of the debates in the Reichstag. In consideration, however, of our economic situation and in view of the fact that you, gentlemen, understand the matter better than I do, I shall refrain from doing what I had intended and would merely remark briefly that if, through our legislation, we have placed the check on a level with the other instruments of exchange, we ought not to let it receive poorer treatment at the hands of the Reichsbank than the bill, the guaranty of absolute safety being of course assumed, as in the case of the bill. I am personally, therefore, not at all averse to seeing the check play a still greater part in our business transactions than it does at present.

In what concerns interest-bearing deposits, I am in accord with the views expressed by Herr Mommsen and Geheimrat Riesser. I do not believe that the Reichsbank ought to go into the business of taking such interest-bearing deposits.

I will close my remarks at this point, gentlemen, in order not to engross your time any further.

Doctor SCHMIDT. We are pretty well agreed, gentlemen, that our paramount aim should be the strengthening of the stock of gold in the Reichsbank, and that the Reichsbank can add greatly to its resources by drawing upon the gold that is in circulation in the country admits of no doubt in my opinion. The statement has been repeatedly heard here that the estimates of the quantity of gold in circulation in the country are too high. It is not an easy matter to frame an estimate that would

not be liable to criticism. I should, however, like to refer to one aspect of the gold situation which has hitherto not received sufficient attention in these estimates; I mean the crowns. The estimate of four billion marks of gold in the country does not take account of the quantity consumed in the industrial arts or of the quantity that is lost through the traffic carried on along the frontier, which does not figure in the statistics. Neither in the one case, gentlemen, nor the other does the crown count for anything. In the statistics of exports from the German Empire you will not find any large quantity of crowns nor will you see crowns going out of the country to an amount worth mentioning through the channels of the border traffic. While the quantity used in the industries will prove to have been altogether inconsiderable, manufacturers have preferred to use the 20-mark piece, which is less worn, so that I believe we can safely assume that nearly the entire amount of crowns coined is still in circulation. We have consequently 700,000,000 marks, and you are all aware that there is a general demand for them in business, that the crowns are not at all conspicuous in the circulation by the side of the double crowns, and that they represent but a small fraction of the total gold supply.

If you were to take a look in your own pocketbooks, gentlemen, or in any of the depositories of public funds, you would find that the stock of crowns is in fact an exceedingly small one. I infer from this that pretty much the whole amount of 700,000,000 marks is still on hand and in our circulation. I believe, in spite of what Count Kanitz

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has to say, that we have, as a matter of fact, at this very moment (admitting that the situation may perhaps have improved somewhat) a superabundance of gold in circulation. I suppose it has happened to some of you, gentlemen, as it has to me, that postal drafts for 500 or 600 marks were paid by the postal messenger altogether in gold. [A voice: This is no longer so.] Some one mentioned the fact also that members of the Reichstag had received their pay in gold. [Dissent.] I believe, moreover, that managers of lotteries and others prefer to pay in gold, and we have just heard that an official of high rank complained of the absence of gold coins in the money paid him when he received his salary. Of course, it would not do to strip our currency of gold and to have altogether too much paper in circulation. But it would be of the greatest advantage if a larger volume of paper money would force its way into the circulation. I see no reason whatsoever why this should not take place, but, of course, we shall have to get the public and the business world accustomed to it. I am of opinion also that there should be no pressure used; it would not do to force this thing upon business. But as we can not introduce any innovation without first educating the public, it is necessary to get business and people in general gradually habituated to the use of small notes in ordinary everyday transactions, and our officials as well. The arrangement already suggested here in regard to this matter appears to me thoroughly practical. The trouble is that we are not accustomed to the small notes. We have no sort of wallet in which we can conveniently carry these small

bank notes, being generally obliged to fold them and stick them into our pocketbooks, which crumples them up and makes them unsightly. It would perhaps have been better if the small bank notes, as well as the treasury notes, had not been made quite so big, so that they might have been carried about more conveniently in a small wallet. I am going to suggest whether it might not be practicable for the Reichsbank to introduce some sort of standard pocketbook for small notes or to induce some firm to undertake the manufacture of such a pocketbook for paper money, one which might be adorned perhaps with the imperial eagle, so that the public might take more readily to these small notes. We should all endeavor, each in his own little sphere of activity and as far as his personal efforts can go, to restrict as far as possible the use of gold in petty transactions, for the gold coins that are stowed away in the pockets of the 60,000,000 Germans or in their tills are of less service to the public at large than if these same millions were lying quietly in the vaults of the Reichsbank. We must do our best to get the superfluous gold that is in circulation into the Reichsbank. As has already been said, it is best by all means to pursue a middle course in this matter. We must not allow gold to disappear altogether from circulation, but it is essential that small paper money be made more and more to take the place of gold in ordinary business. The public has got to be trained, and if everyone were to exert himself we should achieve something.

I will take the liberty, in this connection, of adducing some figures out of my personal experience. I have

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devoted special attention for years to these matters, with the steady aim of promoting the use of small notes in the payment of wages. You will probably all recollect that in the reports of the chambers of commerce in the Rhine Province and Westphalia there used to be an everlasting complaint in regard to the crowns. They kept dinning into our ears: "We haven't enough crowns; there are not enough of them coined. They have got to be coined on a larger scale. Business is clamoring for crowns and they are not to be had." This complaint was formerly not altogether groundless, for there was in reality a lack of small bank notes and, for a time also, of silver that might have taken the place of the crowns, but at present there is no foundation for it, as there is a plentiful supply of small bank notes and imperial treasury notes, and there will soon be an abundance of silver coin also. A cashier, it is true, finds that it is much easier to dispose of a crown than of two 5-mark pieces or of a 10-mark treasury note. But for the purposes of ordinary business the crown is a most expensive instrument of payment by reason of its becoming worn so soon, which in the end may result in serious inconvenience to business. It is the crowns, then, that ought to be withdrawn from circulation in order to strengthen the stock of gold in the Reichsbank. It might, perhaps, be a good plan for the Reichsbank gradually to store away the crowns that come in and not pay them out again. This would be all the more expedient, as, with the proposed increase in the silver coinage, room would have to be made for the new silver money. The

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best way of doing this is by slowly and gradually withdrawing the crowns from circulation and replacing them with silver, which will make an excellent substitute, as our laboring men everywhere unquestionably take hard cash rather than paper money. [Hear, hear.]

In the payment of wages hard cash is, indeed, somewhat handier than paper. All the same, large amounts of small notes can be made use of in the payment of wages in the place of double crowns, so that it is practicable by increasing the quantity of small notes to add very materially to the stock of gold in the Reichsbank. I should like to mention one or two cases. One day this week—I believe it was Tuesday—the payment was made at the steel works of the rebates in connection with the company's stores, together with a considerable sum in wages, so that the sum of 2,000,000 marks had to be paid out in a single day in about 35,000 separate amounts. The officials who were to act as paymasters allowed me to see the slips on which were put down the sums of money that they needed. They had asked for 1,500,000 marks in gold and the rest in silver and notes. By enlisting the services of the head cashier I got the various paymasters to overhaul their slips so as to cut down the sums required in gold. At the close of the negotiations it appeared that, instead of 1,500,000 marks in gold, which had originally been asked for, 500,000 marks sufficed. So just a few marks more than 500,000 marks was paid out in gold and close to 1,000,000 marks in small bank notes and 10-mark treasury notes. It was found practicable, therefore, to replace about 1,000,000

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marks in gold with small notes and allow that amount to remain in the vaults of the Reichsbank. Before the introduction of the 50-mark bank notes the 50-mark imperial treasury notes were in great favor. They could never be procured, however, in sufficiently great quantities, as there were not enough of them. A remedy was fortunately provided in the supplementary bank act through the issue of 50-mark bank notes.

That the small notes are retained in our circulation is shown by another numerical exhibit which I have prepared. In a space of four months wages were paid out to the sum of 15,000,000 marks. In these payments gold figured to the extent of 43 per cent, and 57 per cent was in small notes. [A voice: Still too much!] Of this amount, 2,600,000 marks flowed back into the Reichsbank through the channel of the company's stores. But of this, 60 per cent was gold and only 40 per cent notes, so that a much larger proportion of small notes was retained in the circulation than of gold. This certainly proves that it is possible to accustom the public to the use of small notes. I am in favor of removing the restriction regarding the volume of small notes issued by the Reichsbank, inasmuch as an increased issue of these notes may be expected to result in an increase in the Bank's metallic cash. And I beg the members of this commission to do their best, each in his own sphere, to promote the employment of the small notes in a way most conducive to the efficiency of our currency.

The further strengthening of the stock of gold in the Reichsbank through the development of the system of

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payments by means of deposits, transfers, clearings, and checks is in the highest degree desirable. But the notion that the existing system of payments based on deposits in the Reichsbank would be exploited on an increased scale if the minimum amount of the balance was raised involves, in my mind, a palpable contradiction. It will be rendered less available by an increase in the minimum balance, and we have heard it stated in the course of the hearings of the experts that some of the larger provincial banks and other customers of the Reichsbank either closed their accounts entirely or else materially restricted them when the bank proceeded to demand a larger minimum balance. From my own experience I can affirm that this tendency to raise the minimum amount of the balance in accordance with the volume of transactions in the way of transfers of money has had the effect of restricting in a considerable measure the use of the method of payments by means of deposits and transfers. Before the campaign for an increased minimum balance was started by the Reichsbank most of the great industrial establishments made use of the Bank exclusively for their cash transactions. The large monthly payments of the trusts were placed to their credit in their deposit accounts at the Reichsbank, and the invoices of the concerns that contracted for the delivery of ores, coal, metals, lumber, etc., were settled by transfers on the books of the Reichsbank. In order, however, to escape the penalty to which they would be subjected on account of the large volume of their transactions, they made a change and had the amounts due them placed to their credit in some one or

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other of the Berlin banks, on which they drew checks for the payments which they had to make.

So this cash business was taken away from the Reichsbank and transferred to the so-called "great banks," the same great banks at whose increasing power so many assaults have been leveled in this body. I am therefore of opinion that an increase in the minimum balance would not have the effect of developing the deposit and transfer system, but would only result in its contraction. We are all agreed that such an excellent and perfect institution as that represented by the system of payments through the agency of the Reichsbank and by means of deposits and transfers does not exist anywhere in any part of the world. Germany possesses in this the most complete mechanism for effecting the transfer of funds, something that every country can envy us. It is much more perfect than the system of payment by check, which we are doing our best to develop. By increasing the amount of the minimum balance we should only be hindering the development of this splendid institution and be forced to accept the defective substitute afforded by the method of payment by check.

We ought to endeavor, unless it can be shown that this would render the task imposed upon the bank altogether too gigantic, to extend the system of payments by means of deposits in the Reichsbank so as to make individuals, as well as firms and companies, benefit by it and to bring it even within the reach of small tradespeople. Possibly, however, this will be rendered less imperative by the introduction of the system of pay-

ments by postal check, which is to afford an opportunity to these classes of opening a deposit account.

The system of payments by check, gentlemen, from which so much is expected, will, in my opinion, never become fully developed until, through the force of custom, it has gradually obtained a firm hold among the small dealers and with the class of people who conduct a considerable business on their individual account and not as members of a firm or company. It would mean a reduction of the volume of currency and a consequent strengthening of the resources of the Reichsbank if we could see our way to settling our baker's and tailor's bills, and also our hotel bills and the like, by means of checks. An indispensable condition is that the baker, tailor, or shoemaker shall have an account in the Bank, and it seems to me that in this matter the banks have been remiss in not making the kind of joint propaganda that is needed. We should, however, in any case bear in mind that a check serves a purpose only if it is not immediately cashed but is supposed to be used in connection with a bank account, for if I give my shoemaker, for example, a check on some banking institution and he goes and has it cashed, it would be a much simpler matter for me to give him outright, say, a 100-mark bank note.

The buying of checks by the Reichsbank should be recommended. This branch of business would hardly assume large dimensions.

I should like to express my opinion briefly to the effect that the Reichsbank ought not to take interest-bearing deposits. I can not see that there is any necessity, as in

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all the States of the Empire there are, by the side of the Reichsbank, large state banks, such as our own Royal Prussian Seehandlung, Lotteriekasse, agricultural banks, provincial banks, and provincial credit institutions, which are all able to transact this kind of business very efficiently, and the Reichsbank would only be engaging in a needless competition with these institutions without any real advantage to itself.

Mr. RAAB. The small sphere of business activity in which I am placed ought in my opinion to offer an excellent field for determining by experience whether or not there is a sufficient volume of small notes and whether we ought, therefore, to increase the supply or to oppose such an increase. I must emphatically state it to be my own experience that in the ordinary run of petty business transactions people do not care for the small notes. We can hardly be said to possess reliable numerical data going to show that, as a matter of fact, the small notes have firmly intrenched themselves in the actual circulation. I believe I can tell you something which in a measure will explain why more of these little notes seem to be about than is justified by the actual demand for them.

I recently had a little talk with a postmaster, and this is what he said: "We are supposed to be doing our best now to get this paper into circulation. We send out our postmen in the morning with the paper notes, and in the evening the notes are once more in our safe, for nearly all the money that has been taken in has come in in the form of paper." The postal officials

are sometimes almost driven wild when they have to hand in their returns by the number of small notes which they are obliged to count. When the money is in gold or silver, it will do to count it once; you can tell by the height of the piles if you have made a mistake. But the small notes have to be counted slowly and carefully, and even this may not answer, for a couple of notes can easily stick together. So you have to count two or three times, and then you are not sure that your account tallies. It is not so easy to prove to a person who hands you a note that it is a forgery as it is in the case of a coin, and the detection of the forgery itself is more difficult in the case of notes than in that of coins, where one can easily try by the clink or the weight. In a word, those having anything to do with public funds are almost driven to despair by the small notes, which can scarcely be dislodged from their cash while the public keeps shoving back the notes as fast as it can.

I do not wish to dispute what Doctor Schmidt, of Essen, has said, but I could see in his utterances the word "pressure" struggling to the surface. If the small notes have been brought into circulation I attribute this to the fact that more or less pressure has been exercised. We have heard that lottery agents in particular have refused notes and asked for gold. This is a good criterion as to whether most people prefer to be paid in gold or in notes. And the lottery agent is probably the man with the most delicate touch when it comes to sounding the wishes of one's customers.

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I can not, therefore, advocate an increase in the volume of the small notes, and in reality I should rather be in favor of an enlarged silver currency. Against this there is unfortunately the factor that silver would have to be bought with gold. The fact remains, however, that it is a much better currency than paper. Paper money tears easily, is apt to get lost, and is liable to be blown out of one's hand by the wind, and the small notes, especially, soon get soiled and insanitary. Of course if we have to choose between getting nothing and taking paper, we would rather take hold of the paper with the tips of our fingers than refuse to accept it.

That we ought to do everything in our power to develop the system of payments by means of deposits and transfers, as well as the still better clearing-house system, appears to me, as a Hamburger, a matter of course. I understand how important this institution is with reference to the entire mechanism of exchange, and we fail to comprehend from our Hamburg standpoint how the rest of Germany can have remained so incredibly behindhand. [Laughter.] If it has not been found practicable in Berlin until now to get the great banks to institute a joint system of transfers, it is a matter that excites our regret. At the same time, however, it does not hold forth a very flattering prospect of the realization of the proposition brought forward by Geheimrat Riesser, which I should say is too fine for anyone to believe in.

We have heard expressions of protest from various quarters, gentlemen, against the suggestion that the Reichs-

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bank shall go into the business of taking interest-bearing deposits, and I, too, believe that these objections are based on valid grounds. It appears to me, however, that they are raised mainly with reference to the home business. The most serious mischief supposed to be involved in the scheme is the harm that would be done to other banks, the cooperative associations, etc., through the diversion of the funds that have been gravitating toward them. This would naturally be very undesirable by reason of the weighty tasks assumed by these institutions. But the taking of foreign deposits by the Reichsbank, which I have previously suggested, would not hurt the banks and surely not the cooperative associations. The money thus received would not have gone into their coffers in any case.

It has been further objected that deposits are a dangerous kind of money, which is liable to be withdrawn too quickly. This fear would be groundless in the case of deposits from abroad. If, for instance, depositors living in the United States or even in still more remote countries wanted to withdraw their money, it might take the letter perhaps weeks to get here. By that time, as a general thing, the country will have got over the first shock and the panic will be over. It would be possible, too, to have a provision relative to the giving of notice of withdrawal. Along with this, there might be a clause enabling the depositor to withdraw his money ahead of time or even immediately on the condition of the deduction of a small percentage, as is often the case with cooperative associations and savings banks. Such a violent

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withdrawal of money from the Reichsbank, which is possible in the case of deposits received from our own people, could not take place in the case of foreign deposits.

We have been told, moreover, by one of the speakers, that we should not get any deposits from foreign countries because people get a higher rate of interest abroad, and the Germans who live in those countries are sufficiently light minded to invest their money there. Now, I am sure that the rate of interest is not higher everywhere than it is in Germany, and I believe the Germans are not all light minded, or if they are apt to become light minded it is because they have hitherto not had the benefit of any arrangements enabling them to put away their savings conveniently and securely. I do not mean to say, of course, that I think we ought to have branches of the Reichsbank all over the world. At the same time, I am going to remind you that something of the sort does actually exist. A provision has been inserted in our nautical regulations according to which the sailors' registry offices—that is to say, in foreign countries, the German consulates—are obliged to accept money from sailors and to forward it free of expense to Germany. We are satisfied that in this way we are doing a good service to one class of our society. The sailors are spared no little uneasiness when they can feel that their money is safe, and they are afforded the most convenient means of investing their savings. I can readily imagine that the same thing would work in the case of officials, young tradesmen, engineers, overseers, engine fitters, and numerous classes of men who are in foreign countries. When these people carry

their money around in their pockets or intrust it to a foreign bank of more or less questionable standing, they are liable to incur a pretty heavy loss.

We can get part of this money, gentlemen. Of course, so and so much will still continue to go astray abroad. Well, that much we shall have to let go. Nevertheless, in the course of the year we shall be getting several millions, which we have prevented these people from losing, and we thereby improve the condition of the Reichsbank and render our balance of payments more favorable. The money comes in and a part stays here. The owners either return home later and spend their money here or else they use it for buying machinery, merchandise, or anything else they may happen to need. I believe that most of the money remains here in any case. So I can not see what prevents the trying of my scheme. If it should turn out, as Herr Schinckel believes, that the amount of money we get in this way is small, then the Reichsbank will not have much of a burden placed upon it and will not run any danger of going too extensively into the discount business, which some of the gentlemen who have had the floor feared it might do.

In regard to the proposed limitation of the total amount of its deposits to a definite fixed sum, the Reichsbank insists rightly that it is impossible for it to tell whether in all its five hundred branches the total received may not have suddenly transcended the assigned limit. It would, therefore, be unwilling to agree to such a limitation. This would, however, have to be done by all means in the case of foreign deposits if the entire volume of such

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deposits was to go to the one receiving office at Berlin, where it would be easy to tell, in a general way, whether there was any immediate danger that the maximum permissible amount might be exceeded. It would be practicable, of course, to send instructions abroad in time to the effect that no more deposits should be accepted, or else some other arrangement could be adopted.

The carrying out of my suggestion can not fail to result in a more favorable state, not merely of the balance of trade, but also of the balance of payments, and for this reason, if for no other, it ought to appeal to the members of this commission, who rightly lay so much stress on an improved balance of payments.

I can not say that I am strongly drawn toward the idea of the purchase of checks by the Reichsbank. I am not exactly opposed to it, but I should restrict the taking of checks to persons having a deposit account with the bank.

Doctor WEBER. It is extremely difficult, gentlemen, after the various expressions of opinion that we have heard, to enter into a further discussion of the questions before us, as but little can be adduced that is new. For my part, I was glad to learn from the statement made by our chairman that the issue of the small notes up to the generous limit agreed upon with the Reichstag presents no difficulty and that the notes have maintained themselves in the circulation. I would urge that in the discussion of the bank act an opportunity be afforded, in behalf of the simplification of our circulation, of making the maximum amount of small notes that may be issued even larger than it is at present.

The belief expressed by the gentleman who has just had the floor that people of the humbler class have an aversion toward the small notes is probably founded on fact. This dislike may possibly be based on the recollection of the state of things which formerly prevailed in Germany in the matter of bank notes. But if we consider that aspect of the question which Doctor Schmidt has laid so much stress upon, we are bound to say that we are doing a good thing in enlightening the public with respect to the advantages to be derived from the small notes and the necessity of compelling gold to flow into the Reichsbank. The small notes are eminently calculated to cause gold to flow into the great central reservoir, Berlin, and no one will deny that gold when it is lying in the vaults of the Reichsbank is, at any rate, better capable of discharging its great function, that of serving as a foundation for our monetary system, than when it is in the pockets of small tradespeople and artisans and is used for paying wages and making other small payments. Very mistaken notions prevail among our people as to the function that gold has to perform, and if a member of this body remarked a while ago, that when, for example, the firm of Krupp gets the small notes to circulate among the people it is something like the exercise of pressure, I beg to say that I am altogether unable to agree with him. I hold that it is the duty of such a great concern to enlighten those with whom it has to deal in regard to these matters, and I wish the inhabitants of Saxony were as ready to accept the small notes as those of the Rhine Province and Westphalia. There is this excuse at least for us in Saxony, that we border on

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Bohemia, so that the working people are in the habit of taking gold with them into Bohemia, whose inhabitants are delighted to be able to get hold of gold and gladly take it off their hands.

I am furthermore of opinion that if the imperial treasury notes are eventually to disappear, which can only be in the distant future, we shall have to introduce small Reichsbank notes of the denominations of five and ten marks. [Quite true.] Geheimrat Wagner, it is true, declared that he was opposed on principle to small notes, and he bade us remember the period at the close of the fifties in the last century. But conditions in Germany with respect to paper money were very different then from what they are now. To-day our system of bank note currency is based upon the gold standard, and we have adopted the principle of the one-third reserve, and we know furthermore that the notes have to be redeemed in gold and are actually being redeemed in gold.

This much, however, I am likewise willing to admit, that our bank notes are not particularly handsome and that they easily wear out by handling. We can not deny—and in this I agree with the gentleman who has just had the floor—that a certain dislike for the bank notes has arisen among the people on account of their unprepossessing exterior. Indeed, one sometimes has to stick notes into one's pocketbook that are in such a state that one has to wash his fingers after handling them. There is only one remedy for this—that the Reichsbank shall follow the example of the Bank of England, which, as a rule, destroys the notes when they come in. This would render our people more

inclined to accept the notes in place of silver or gold, especially if the designs could be improved.

We are all of one opinion, gentlemen, in regard to the question of the extension of the system of payments by means of deposits, transfers, and clearings. I believe, for my part, that the system of payments by check is also necessary and that the public ought to be made to appreciate its advantages, and I look upon a well-ordered mechanism of this kind as a preliminary stage in the development of the transfer and clearing system. Reference was repeatedly made in the latter part of this discussion to the system of payments by check and to the law relative to checks, and we have heard the assertion that in this thing there is a new privilege involved, and, in particular, a privilege of the great banks. We have here, gentlemen, an utter misconception of the matter. The great banks are not engaged in this business on their own behalf, but merely in behalf of a more efficient system of payments in general, for the banks are obliged to put themselves to so much expense and trouble in connection with checks that they would not be sorry if they did not have to take in so many. The large volume of checks interferes with the operations of the bank much more than it did formerly, and it is the experience of the banks that in the course of the last year or year and a half the volume of check transactions in the German Empire has increased materially and that the running expenses of the banks have thereby been considerably augmented.

It would be of great advantage, gentlemen, if the governments of the individual States would impress upon the

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officers charged with the handling of public funds the desirability of utilizing more than they have done hitherto the means of payment afforded by the deposit and transfer system of the Reichsbank. This has in a large measure not yet been the case, and I have myself heard from a member of this commission that, in spite of the instructions issued by the Prussian Government, many of the officials whose business it is to pay out and receive public money continue to rebel against the use of that system. And when we are told that some of these officials oblige a person who comes for his money to hand in a receipt three days in advance if he desires the amount to be placed to his credit in the Reichsbank, we have before us an illustration of the most outrageous red tape. You know that the officer in question has no trouble in ascertaining through the Reichsbank that the money has gone into the proper hands, and, in point of fact, we ought to see to it that this sluggishness on the part of our officials is supplanted by a businesslike way of doing things. [Quite true!]

I should like to say a word also with reference to the system of payments by postal checks. This, I am sure, is bound to do good service also. I believe, for one thing, that it will remove the necessity of reducing the minimum amount of deposits in the Reichsbank to 300 marks, as was urged in the opinions of the experts, inasmuch as this system of payment by postal checks is made available for the needs of the so-called "middle class" in the German Empire. It is much better adapted to the needs of the artisan (whether he belongs to the poorly paid or the

better paid class), the petty tradesman, and the small manufacturer than the deposit and transfer system of the Reichsbank, and it is very desirable that this class of the population shall avail itself more of the postal checks than of the Reichsbank, which has much weightier tasks to perform than people are generally inclined to believe.

I am of opinion myself that the use of checks would perhaps not have been confined to its hitherto restricted dimensions had not the great banks and the Reichsbank betrayed a certain lack of willingness to accommodate the public in the best way possible in the matter of the transfer of money by checks and drafts. It goes without saying that it takes too long if, when a check drawn on Dresden is presented at Berlin, one is obliged to wait three or four days before getting his money. If we are to make a propaganda for the use of checks, the banks will have to try to devise some means of remedying this evil. There must be ways and means that shall enable us as far as possible to remove these obstacles to the use of checks by those whose business transactions are on a modest scale or shall at least accelerate the operation of this method of payment.

In regard to the question of Reichsbank checks, gentlemen, I must say that I share the view expressed by some of the experts, that they would represent an unnecessary addition to our currency. I am, however, of opinion—and this question has been adequately discussed before the public by Geheimrat Riesser, who dwelt on the matter also on the occasion of the hearings of the experts—that if there are great difficulties in the way of a clearing

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system, we must try to remove them. We ought not to allow such difficulties to stand in the way of the introduction of so useful an institution. We should see to it, for example, that the system of clearings in connection with the mortgage-banks clearing house, an institution originated by the last president of the Reichsbank, is further developed. A clearing system for the Empire, in the sense in which it was suggested by Geheimrat Riesser, is in my judgment practicable and necessary.

As to the matter of increasing the minimum balance in deposit accounts, I shall briefly express my view to the effect that the amount ought to be graduated according to the services which the customer exacts from the branch of the Reichsbank with which he deals. The raising of the minimum amount of deposits, pure and simple, will in the case of the big concerns have the effect—as Doctor Schmidt has pointed out—of making them go to the great banks in order to get them to undertake the transfers of money hitherto effected by the Reichsbank, which would thus have some of its business taken away from it. I can tell you from personal experience that this is already being done on a large scale by a number of concerns. This amounts, in my opinion, to an inroad into the province of the Reichsbank, which renders its great task of regulating and superintending the monetary circulation in the German Empire more difficult and in a measure impossible. It seems to me that in this respect the Reichsbank might perhaps adopt a somewhat different policy from that which it is presumed to have just now adopted. I am

unable myself to judge from personal experience what course the Reichsbank is at present pursuing.

In what concerns the question of interest-bearing deposits, I can not say, gentlemen, that they excite any very warm feeling on my part. I consider it altogether out of the question that the Reichsbank should add to all its weighty duties that of paying interest on deposits, a function which does not come by any means within its legitimate scope. It is not the great banks, as has always been said, that would be hurt by it. The great banks are not a bit concerned as to whether the Reichsbank takes deposits or not. It would chiefly be the savings banks and the cooperative institutions that would be the losers. It is not necessary for me to refer to the other objections, mainly of a technical nature, to the introduction of such a system, as they have been sufficiently discussed.

To come finally to the subject of the buying of checks by the Reichsbank, this is a question which, as the president has declared, has to be very carefully discussed. I believe it was Doctor Schmidt who said a little while ago that we ought to try to reach the point where we can pay our shoemaker and our tailor with a check, and that not until then would the system of payments by check be exploited to the extent that we are anxious that it should be. Such a state of things does exist in Germany in a few districts. In Oldenburg, Mecklenburg, and Brunswick the banks are so constituted as to render transactions of this kind practicable. In the city of Oldenburg, for example, everybody is

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used to them; but whether this will work everywhere, I doubt very much. I know it is not suited to Berlin. Such a system of payments by check can be introduced in small places, but it will not be practicable in the case of large cities. What I wish to assert is that while very extensive use is made of checks in the large cities also, it is nevertheless a fact that the recipient of a check, if he be, for example, a shoemaker or a tailor, goes to the bank to have it cashed, because the man of humble means has, as a rule, no deposit account with the bank. And so long as we have not reached the stage where every recipient of a check has a bank account, this system can not be utilized up to the full measure of its intent. For a check that has been cashed has missed its object just as effectually as the beer in regard to which a well-known member of the Reichstag, no longer living, asserted that it would fail to achieve its object in case no one happened to drink it.

In case the purchase of checks by the Reichsbank is introduced, I should be in favor of restricting this branch of business to the depositors and those customers to whom the bank makes loans on collateral.

Mr. FISCHER. Gentlemen, the question has been submitted to us: "Is it desirable to endeavor to bring about an increase of the cash holdings of the Reichsbank out of the channels of domestic trade?"

Along with this come several secondary questions. With respect to the suggestion under B "by means of an increased issue of Reichsbank notes of the denominations of 50 and 20 marks," I must say that all in all

I do not care very much for the small bank notes. It would be preferable if the circulation were all the time saturated with gold as far as possible and the petty transactions of everyday business were effected by means of hard cash only. This is my theoretical view; but I believe there are considerations of a practical nature that should also be allowed to weigh in this matter.

Apart from the reasons which have been adduced in the Reichstag in favor of the issue of small notes, we can not afford to overlook the fact that we are obliged, as well as everyone else, to cut our coat according to our cloth, and we must therefore ask ourselves whether we have enough gold at our disposal. There is no doubt that our circulation is abundantly provided with gold, but then we have had the experience that in the course of years, in spite of the continual importation of gold, the resources of the Reichsbank have not been as greatly strengthened, relatively to the increasing circulation of notes, as we could have wished. Even if we take into account the needs of industry, which, indeed, have only more recently risen to their present dimensions, as well as some other channels through which gold has been withdrawn, we can not help realizing that there has been a steady flow of gold into our currency, so that the quantity of the metal in circulation must have increased. If the metallic stock of the Reichsbank has by no means been strengthened within the past ten years, as was shown in the course of our recent discussions apropos of another point in our question sheet, it must be ascribed to the peculiar habits of our people, which, unlike the public in

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France, makes use mainly of gold. The enviable condition of the Bank of France is chiefly due to the fact that the French people are accustomed to the use of bank notes.

If the Reichsbank has been unable in recent years to retain in its vaults a sufficient share of the gold that has been imported, we have to reconcile ourselves to the fact that the actual conditions are not such as to afford us the luxury of a superabundant gold currency, and therefore, in spite of my theoretical objections, I consider it advisable to take measures to prevent a supersaturation of our circulation with gold. For this purpose I regard the issue of the small notes useful, and I am of opinion accordingly that, without exercising pressure in any way, or, in other words, without forcing the issue of the small notes, we ought gradually to get our public into the habit of using a certain amount of small bank notes by the side of gold, which, as the foundation of our currency, I think ought to be retained in our circulation on a large scale.

I am arguing on the assumption that the greater the volume of covered notes in circulation, the stronger our bank becomes. [Quite true.] That part of the circulation which consists of notes of small denominations would therefore, to my mind, be represented in the Reichsbank by an increased stock of gold. In this sense I can see no impairment whatever in the situation with respect to our monetary standard resulting from the issue of small notes. This would in reality mean a great guaranty in regard to the redemption of our bank notes in general. It is a matter of experience that the main

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reason why bank notes can be kept in circulation is the fact of their being redeemable at any time—in other words, the circumstance that they do not represent any actual separate values in themselves, but are merely the tokens of values situated elsewhere in the bank. Uncovered notes, too, can be kept in circulation without any danger, as long as a proper ratio is maintained between their total and the metallic stock in the bank. I should therefore like to see that part of the circulation which is uncovered, take, in a certain measure, the form of bank notes which even in times of uneasiness do not come in fast for redemption. But these are that part of the currency which circulates most intensively—that is to say, the small notes. It has been shown by actual experience everywhere that it is possible, irrespective of the extent of the metallic cover, to keep a much larger volume of notes permanently in circulation when they are not of too large a denomination. The slow rate at which they come in for redemption appears to me to afford a security for the redemption of the notes as a whole, and I am therefore in favor of the present policy of issuing the notes of the Reichsbank in denominations of 50 and 20 marks. A material increase in the volume of small notes in circulation seems to me expedient, however, only in so far as it can be accomplished without any particular pressure or compulsion, regard being had for existing conditions.

The question as to whether a measure of this kind would be calculated to bring gold into the Reichsbank or

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to keep it there, I should decidedly answer in the affirmative, for we have found that at the quarterly periods there is an outflow of gold which sometimes reaches large dimensions and which, it is quite certain, need not necessarily take this shape [Quite true!], if for no other reason, because it is this very part of the circulation that most speedily flows back to the bank, which means to say that no permanent increase in the amount of gold in circulation is brought about by this outflow. The only actual result is, that just at those times when the needs of business demand a large volume of currency and when the Reichsbank consequently is for the time being in a way crippled in its resources—and that in a way which we do not find in the case of a single one of the other great banks of issue—the outflow of gold amounts to a triple burden, for every withdrawal of gold diminishes the volume of notes that may be issued by a threefold amount. No one would have entertained the fear that at the close of last year the metallic stock in the Reichsbank might fall so low that perhaps the one-third reserve would not be maintained, had we not so greatly dreaded the drain that takes place at the end of December, when for a brief period of a few weeks the necessity of an increased circulation is manifested.

In regard to the second question, as to whether it is desirable that efforts be made to strengthen the stock of gold in the Reichsbank, “C, by diminishing the need of circulating media through extension and intensification of the deposit-and-transfer, check, and clearing system,” it is my opinion that the increased multiplicity of such

transactions is decidedly calculated to diminish the circulation of currency and consequently to check the drain upon the gold supply of the Reichsbank resulting from the needs of our circulation. I consider the steady development of the system of payments by means of deposits, transfers, checks, and clearings of great importance. But I think we ought to be careful not to permit the great expansion of such a system to lead us to commit the mistake—a mistake that the English are evidently making—of allowing our general reserves to run too low. Increased liabilities necessitate correspondingly increased cash reserves. [Hear, hear!] There is a general impression that the English bills, the sterling bills drawn on London, are more readily redeemable in gold than other bills. I do not share this view, for I believe that the small supply of gold that is in the hands of the British people [Hear, hear!] is a menace to the security of the English system of credit. And even if an improvement has set in, it is not sufficiently thoroughgoing. The more we extend the system of payments by means of deposits in the Reichsbank and the use of checks, the more imperative it is to take thought regarding the provision of cash reserves. I should consider such provision a condition of my unreserved advocacy of the extension of the system of payments by deposits and checks.

I am not prepared to go as far as Geheimrat Wagner, who urges the necessity of providing immediately a gold reserve for the deposits in the Reichsbank, my reason for this being, as in the case of my approval of the issue of the

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small notes, that it is well for us, with reference to this matter also, to cut our coat according to our cloth and to wait and see whether we can get what is actually necessary before stretching out for the merely desirable. But I am sure that at some future time it will prove of great advantage when the status of the Reichsbank is under consideration to take account of the necessity of providing a certain cover for these deposits. I do not think, however, that it would be wise to set about to dispose of this question by means of legislation. It is a question of management, a matter of the conduct of the Reichsbank, and I believe that with the increased use of checks and the growth of its deposits the Reichsbank will be more in a position to retain the gold it has amassed in good times firmly in its treasury.

As regards the raising of the minimum amount of non-interest-bearing deposits, I desire to say that I do not consider such a measure calculated to bring gold into the Reichsbank. The raising of the minimum balance on the part of the Reichsbank would tend to diminish the resources available for the purposes of credit. A curtailment of credit would necessarily ensue or else the Reichsbank itself would be put to the stress of meeting greater demands upon it and be constrained to counterbalance the increased sum in the way of minimum balances by a counter-item in the way of loans and discounts. In my opinion this question ought not to come under consideration in the discussion of the possible means of bringing gold into the Reichsbank. It is a question of the lucrativeness of the bank's business, a question of the relations between the bank and its deposi-

tors. If the Reichsbank happens to find that such and such a customer is demanding too much from it in the way of services which it is bound to render, it has unquestionably the right to insist on an increase in the minimum balance. I should not consider it proper in the discussion of the profit which the Reichsbank derives from its depositors—the increase of which profit would tend to a lowering of the minimum balance—to take into account the total of the bills presented for discount, or, in other words, the profit yielded by its discount operations. I hold, on the contrary, that the discounting of bills is likewise a service which the Reichsbank renders to its depositors and that this ought not to have the effect of inducing a reduction of the minimum amount of deposits. I ought to say, on the other hand, that I should consider it a great gain if, as a concomitant of our economic development, we could see the total of the deposits in the Reichsbank attain to still greater proportions, in the first place, through the increase in the number of depositors—which is, indeed, the essence of the development of the deposit and transfer system of payments—and, secondly, through the increase in the average amount of the balance kept by depositors. I consider the average balance in itself as likewise a source of gain, a gain such as is in accord with a sound monetary circulation; for the greater the reserves in proportion to the liabilities the more secure is the monetary circulation. The amount of the balance over and above the minimum balance constitutes a free reserve for the depositor. I must confess that the present state of things in this respect is not altogether satisfactory to me. If I find, for example,

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that on March 31, 1908, there were only twenty-two instances in which the deposits exceeded 1,000,000 marks, it seems to me that one has a right to infer that an improvement in the direction of an increase in the average deposits is probably achievable. I think that the average amount of the balance ought to constitute a cofactor, although not too decisive a one, in the determination of the minimum balance.

I come now to the question of the taking of interest-bearing deposits by the Reichsbank. The precise question as to whether they would promote the flow of gold from the general circulation into the Reichsbank, I should answer outright in the negative. The whole thing will essentially amount to this (just as in the case of ordinary deposits), that money which would otherwise be lying in other institutions will be deposited in the Reichsbank. I can not see how an increase in the stock of gold in the Reichsbank could result from it.

There are other reasons for my not regarding this branch of business as advantageous to the Reichsbank. One main objection—that already urged by President Kaempf—is that the bank, in order to provide the interest, will be obliged to go into the market and assume largely the character of a credit institution, something which is incompatible with its main function. But there is still another objection. It is the task of the Reichsbank to regulate the monetary circulation and not the placement of capital. The taking of interest-bearing deposits by the Reichsbank may be conceived of under two different aspects. Either the deposits are taken without any con-

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ditions in regard to notice of withdrawal merely for a short period, which would only lead to a malexploitation of the Reichsbank, inasmuch as funds that would otherwise be in its keeping without interest will now draw interest, or else they are placed for an indefinite period with the condition of notice of withdrawal attached, in which case they unquestionably constitute merely the counter items to an investment of capital on the part of the bank. Now, the Reichsbank is not created for making investments of capital. It would only be adding another branch of business to its functions, that of offering to provide for a part of the public a safe and permanent field for the investment of its capital. I am aware that there are some who advocate this course, but I believe that the object which they wish to achieve is incompatible with the character of the bank as a regulator of the circulation. If the arrangement in question were to be utilized on a large scale, it would undoubtedly be necessary for the Reichsbank, as Herr Kaempf has pointed out, in order to prevent a contraction of the currency through the influx of money into the bank, to resort to an increased granting of credit. If it were utilized on a small scale, the only result would be that the rate of interest allowed by savings banks and cooperative associations would be raised by reason of the competition thus created, a condition which would render more difficult the safe investment of funds which ought to be invested only where there is absolute security. I am therefore opposed to the proposition in question.

As regards the buying of checks by the Reichsbank, I am, as a matter of principle, in favor of it. The question

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as to whether it would bring gold into the bank does not admit of being answered outright without the superposition of a second question: Will the purchase of checks by the Reichsbank tend to extend and popularize the use of checks and the deposit-and-transfer system of payments? I am of opinion that it will. I believe we ought to leave the bankers out of consideration in this matter, as they have facilities for cashing checks readily and quickly elsewhere. But the case is very different with respect to the larger and medium-sized business concerns. The more extensively the deposit-and-transfer system of payments becomes operative in our whole mechanism of exchange, the more necessary will it be, in my opinion, to afford ready means of easily converting checks into cash or otherwise disposing of them. If the Reichsbank were to buy up checks, merchants would be glad to turn over to it their daily batch of these instruments, consisting not merely of checks drawn on other places which the Reichsbank is to buy up but also of checks which are simply to be cashed in the place itself. This will bring about an increase in the number of depositors at the Reichsbank, which increase I consider by all means desirable. To my mind it is in the essence of the deposit-and-transfer system of payments that the Reichsbank should feel constrained to facilitate as far as is expedient the making of every manner of payments at other places in Germany and the transfer of funds in whatever way from one place to another.

It goes without saying that it will be necessary to take the strictest precautions to guard against the acceptance of worthless checks by the Reichsbank. It will

not do, therefore, to extend the benefits of this arrangement to those who have no deposit account in the Reichsbank, as it would be a very difficult matter for the bank to make sure of the signatures of such persons, and the circumstance that the money is not placed on deposit but passes out through the teller makes it more easy to commit forgeries or to do something wrong with the checks. The necessary security ought to be afforded in the first place, I should think, just as in the case of bills, by making several signatures a requisite. It seems to me that the purchase of checks with a single signature would altogether defeat the object of the whole arrangement. It is not a question here of affording credit to somebody by means of the check. It is not the person who makes out the check but the one who receives it in the regular course of business that is to get the benefit of the facilities afforded by the Reichsbank. In so far as the signature does not offer sufficient security in itself, additional security might be provided by the tying up of a corresponding part of the minimum balance. The conditions, I should think, ought not to be made too rigid. I should not consider a deduction of five days in the case of checks justified. If in the purchase of bills the bank deducts five days it is because it does not itself receive the money until five days later, but in the case of checks it is quite otherwise. As a rule they are cashed on the following day and I am of opinion, therefore, that a smaller number of days should be deducted.

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In regard to further guaranties made requisite by the existing laws relative to checks, which provide that a check be secured against cancellation only for a certain period, I have nothing special to say, as this is a matter of organization, and the subject was fully discussed in the hearings of the experts. I should consider it very desirable if every accommodation was afforded in the matter of the cashing of checks and the charge made as small as is compatible with the actual expense incurred by the bank.

I wish to say in conclusion that in my opinion the legislative provisions relative to this matter should not go so far as to impose upon the Reichsbank the obligation to purchase checks, but ought merely to empower it to do so. This privilege, taken in conjunction with the whole management of the deposit business, would not involve too great a burden for the bank. This is essentially a question of experience and of organization, and I believe that it is well worth while to make a trial.

There is still one point with respect to the use of checks to which I should like to refer. I consider the development of this system of payments desirable for the reason also that it is calculated to diminish the use of subsidiary coin, as I regard the superabundance of such coin in the circulation and the increase of its volume relatively to other kinds of currency as an evil.

Freiherr VON GAMP-MASSAUNEN: I must say, with reference to Question B, that I am rather inclined to agree with Herr Fischel as a theorist than with Herr Fischel as a practical business man, for quite frequently

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after delivering himself of a theoretical exposition, which has often coincided with my own views, he has let us know that he is constrained from a practical standpoint to refute himself in various respects. I fully agree with him when he says that the issue of small bank notes is in itself not desirable. Their issue was, in point of fact, regarded as an emergency measure. But if I am called upon to answer the question as to whether it would be advisable to increase the volume of small notes, I should first of all like to have trustworthy data in regard to the extent to which the small notes have remained in circulation. The president of the Reichsbank stated in the course of the preceding discussion that the small notes had displaced 1,000-mark notes to the sum of 62,000,000 marks, 100-mark notes to the sum of 29,000,000 marks, and imperial treasury notes to the sum of 24,000,000 marks; that is to say, they had displaced other bank notes and treasury notes to the total sum of 115,000,000 marks, while the issue of the small bank notes amounted to only 191,000,000 marks, so that the total increase in the volume of bank notes was only 86,000,000^a marks. He said, however, to-day, that these calculations are not altogether reliable. I am sure the sum of 86,000,000 marks would not cause me the least uneasiness, and if it is true that the small notes have thus far caused gold to the extent of 86,000,000 marks only to pass from our circulation into the vaults of the Reichsbank, I should not hesitate to increase the volume of the small notes materially.

^aThe difference between the figures given is 76,000,000.—Translator.

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The question, however, assumes a very different character in my eyes the moment I am persuaded that the small notes have presumably not driven any 1,000-mark notes from the circulation, but that the decrease in these notes is to be ascribed merely to the increase in the volume of clearing transactions and the like. We shall, therefore, be constrained to request that when the question comes up for discussion in the Reichstag—Doctor Weber has already proposed that the agreement entered into with the Reichstag be amended in the direction of greater latitude—fuller and more trustworthy data be submitted to us than what are now in our possession, in order that we may form an idea of the quantity of gold that the small notes have forced from the circulation into the Reichsbank. I am glad to be able to state positively that gold is already being made to flow in artificially, that is to say, that it is being withdrawn from the circulation and forced into the Reichsbank, and we can perceive already a very considerable diminution of the volume of gold in circulation. In order to be able to grapple with this question, we must have a knowledge, furthermore, of the total stock of gold that we have in the country. We have been told all along that it was 4,400,000,000 marks. I believe there is not a single member of this commission who is not convinced that this estimate is too large by at least many hundred millions. If we have overestimated the supply by 1,000 or 1,500 millions and perhaps even more, then the present volume of the small notes may be a serious matter, and the question would have to be con-

sidered whether they ought not to be withdrawn from the circulation, for I must say that the gold reserve is much better guarded against assaults from abroad as well as against attacks from within the country when it is in the circulation than when it is lying in the vaults of the Reichsbank. I say, therefore, let us keep our gold tight in our pockets until we can find out just how big the stock of gold in the country is. Only then can we tell whether the further issue of the small notes is practicable without detriment to the public welfare.

[A voice: Just the contrary.]

In regard to this point we shall not be able to agree. But before we can come to any understanding with respect to this question, we must have the necessary information. I am sure that the Reichstag will flatly reject our proposition in regard to an increased issue of the small notes unless evidence is at hand as to how the issue of the small notes has affected the circulation of gold and unless a reliable estimate can be had of the quantity of gold in the country.

Herr Fischel brought forward an argument in favor of the small notes that I, from the standpoint of the great banks, did not altogether relish. He asserted that the small notes remained longer in circulation than the large ones and that in a time of crisis they were slower in finding their way back to the Reichsbank. That is as much as to say that the people of modest means are the pillars of our monetary standard. Herr Fischel is correct as to his facts; he is borne out by the statistics. But I

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think he would prove to be mistaken if it came to a run or if a doubt arose in regard to the safeness of the small notes. In such a case these people of small means would be the first to rush to the Reichsbank, hosts of them, and they would be perfectly right, for they are unable to judge of the economic situation so correctly and so confidently as the big manufacturers, the managers of the great banks, etc. The latter will not go with their bank notes to the Reichsbank because they know that the notes are safe. But the humble public will come the moment a cry of warning is raised by the daily press that we are nearing the one-third reserve and that the Reichsbank may perhaps not be in a position to maintain the one-third reserve. We should then witness a regular onslaught on the Reichsbank.

I am in favor of simplifying, as far as possible, the methods in vogue in our public offices in the matter of crediting sums to an individual's account, and I fully agree with Herr Weber when he says that in Prussia especially some of the officials display a remarkable sluggishness, which can be cured only by the energetic action of the central authorities. I must admit that we Prussians have much to learn in this respect. If I desire, for example, to deposit a bond with the forestry department on account of a purchase of timber amounting to 3,000 marks and hand in this bond in the shape of government securities, it ought to be sufficient for the officer simply to certify that I have deposited 3,000 marks in Prussian consols. A voucher is presented to me instead, on which the numbers and denominations of the securities are

entered. I am told, first of all, to sign this voucher, and then it goes back to the Government, and, when the bond is to be liquidated, the voucher is sent once more to me for my receipt and signature, after which, and not until then, it finally goes to the main treasury and my securities are returned to me. This is an antiquated proceeding, and I think it would be a good thing if there were a little more appreciation of practical needs.

To repeat what I have said, gentlemen, I may define my position in regard to the issue of the small notes to be one of cautious advocacy. I should under all circumstances make such issue dependent upon the stock of gold in the country, upon the evidence afforded by reliable estimates, and not vague or incorrect ones, of the existence of a very considerable stock of gold. I should furthermore make it a condition that the small notes shall not be forced into the circulation artificially through any kind of coercion.

Herr Fischel laid stress upon the fact—a point to which I have repeatedly referred myself and in regard to which matter also I am happy to state that I agree with my distinguished colleague—that in England the general gold reserve which is contained in the circulation is too small and that, in other words, England has not enough gold in circulation. Now I should like to point to the inference that may be drawn from this deplorable circumstance [Very good!], which is, that if at a time of general financial stress demands should be made upon the Bank of England and ourselves for gold to be sent abroad, then, in case the Bank of France should refuse its aid,

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the Bank of England might likewise decline to do its share, so that we should have to bear the brunt of the onslaught alone.

I do not believe that the raising of the minimum amount of the balance in the Reichsbank would tend to diminish the resources of the great banks available for the purposes of credit, as Herr Fischel says. I am of opinion, on the contrary, that they would be increased, for every million which thus goes to swell the cash of the Reichsbank makes it possible for the bank to issue notes to the sum of three millions; that is to say, will triple the currency available for the purposes of credit.

In regard to the question as to whether the increasing of the minimum amount of noninterest-bearing deposits in the Reichsbank is expedient and advisable, it will be impossible for me to reach any definite conclusion until I know according to what principles the minimum balance is calculated. We have heard loud complaints on the part of the experts that pressure had been actually exercised in order to compel them to do business with the Reichsbank and that certain banking institutions had made the minimum balance depend upon the amount of other business which tradespeople and manufacturers did with them. I am consequently unable to express any opinion in regard to this matter and shall merely observe that in my judgment the minimum balance ought to be calculated without reference to any other transactions that the customer may have with the Reichsbank but only with reference to the services mutually rendered. I am willing to admit, to be sure, that, in order that the

transfer of large sums of money by means of the Reichsbank shall not be made so burdensome for the depositor as to compel him to resort to some other agency, not merely the total amount of business done in connection with the deposit account ought to be considered, but that, in the interest of the Reichsbank itself, other factors ought to be taken into account. In order to increase the total volume of deposits in the Reichsbank efforts should be made, as Herr Schmidt has pointed out, to increase the number of depositors by reducing the minimum amount of the balance, as the amount which the Reichsbank demands at present is too large for business men of moderate means and the class of small tradespeople who can not afford to have so much of their capital lie idle without bearing interest. I assume, of course, that a material increase in the number of depositors will not interfere with the regular working of this excellent institution. These are practical questions, however, in regard to which I am unable to furnish any information.

It is necessary in this connection, gentlemen, to discuss the question that was brought up by a number of the experts as to whether it would not be best to raise the minimum amount of the balance and at the same time provide for the payment of interest on a part of it. Director Gwinner went so far, indeed, as to suggest that the total of the deposits shall bear interest, even if the rate should be very low. I do not believe in it. I am of opinion, however, that when depositors have a sum of money in the Reichsbank which they intend to make use of after a short time, letting the bank have the benefit of it in the

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meanwhile, they should be allowed a low rate of interest on it in order that they may not withdraw it and place it at interest for a short time in some private bank. In this way such wasteful transactions would be avoided. If the Reichsbank were to allow 2 per cent in such cases it appears to me likely that considerable sums would be allowed to remain in the bank.

On the other hand, I am altogether opposed to the proposition that the Reichsbank shall go into the business of taking interest-bearing deposits in the way that is done by our private banks, paying interest at a rate dependent upon the time agreed upon with respect to the notice of withdrawal (one day's notice and so on). I should consider this, gentlemen, a most dangerous thing. [Quite true.] The Reichsbank would naturally not be able to pay as high a rate of interest as the private banks. It would consequently be exposed to the danger of having money brought to it only at a time when money was very plentiful and having it withdrawn at a time of crisis. It would, therefore, be much less in a position to discharge its main function than at present.

I should be in favor, however—although I do not care to discuss this question just now, believing that it should be reserved for a very careful discussion—of the establishment of a national deposit institution which would afford absolute security to guardians, etc. This would, however, have to be organized on entirely different principles from those on which a deposit department in the Reichsbank would have to be constituted. [Very good.] Such a government institution could, of course, not receive

deposits subject to withdrawal at a day's notice or even at a week's notice, but the least that ought to be required would be six months' notice. This subject does not, however, belong to the bank question which has been submitted to our judgment. I am, therefore, of opinion that the suggestion of Herr Raab in regard to the establishment of such an institution in connection with the Reichsbank ought not to be discussed any further in this body. Perhaps the scheme could be taken up by the Seehandlung, which is in a position to do it and is adapted to the purpose. Or else let us create an imperial institution. But let not the Reichsbank undertake such tasks, for its duty is, above everything else, to safeguard our monetary standard.

Herr FISCHEL dwelt upon the fact that the Bank of France is in a most favorable condition as compared with our bank just with respect to the intensive exploitation of the check system.

Mr. FISCHEL. No; through the circumstance that the French people prefer bank notes, so that the gold stays in the bank and the notes remain in circulation.

Freiherr VON GAMP-MASSANNEN. I understand this, of course, but I wish to call attention to the fact that it is the peculiarity of the French money standard that enables the Bank of France to maintain this colossal stock of gold, as it can protect itself against any inordinate drain, whether the gold is wanted to meet a foreign or a domestic demand. Herr FISCHEL has rightly insisted that we must by all means have a larger ratio of reserve to circulation. If instead of a ratio of one-third we had a

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fifty per cent ratio, or, say, one of two-thirds, the question of the issue of the small notes would certainly assume an entirely different aspect.

A VOICE. There is at this moment an 80 per cent reserve.

Freiherr VON GAMP-MASSANNEN. Just at this moment, perhaps, but that is not a kind of security that I should like to guarantee.

I should imagine that the people whose dealings make up the great bulk of petty monetary transactions, as a general thing, prefer silver to the small bank notes. Our workingmen prefer to take silver. I have been speaking with some gentlemen who have large industrial establishments, employing from 6,000 to 8,000 hands, and I gather from them that the working people do not care for the small bank notes, preferring to take silver. Then why do these establishments not pay their hands in silver currency?

Doctor SCHMIDT. Because it has to be accepted in payment only up to 20 marks.

Freiherr VON GAMP-MASSANNEN. I do not consider it right to stick to this provision of the law in the payment of wages. It would be preposterous to imagine that the laboring man is going to appeal to the article in the coinage regulations and say, "You are not allowed to give me more than 20 marks in silver." What laboring man will do this when he knows that he can dispose of the silver at once and must use it in his small payments? I do not believe that any laboring man ever hit upon such an idea, unless he was somehow egged on

to it. [Laughter.] I think Herr Singer, too, will agree with me that the laboring men are glad to get silver. But we have recently had such a dearth of silver money that it has been impossible for the employers of labor to get what they need for paying their hands. I am willing to admit, however, that we have peculiarly unhandy coins, the 5-mark pieces being especially ill-suited to the convenience of most people, and things will be mended by the introduction of the 3-mark pieces.

I believe, gentlemen, that we are in a felicitous accord with respect to this question. As to the question of the buying of checks, I hardly think there is any need of my discussing it, as here also there would seem to be, on the whole, a concurrence of opinions.

Doctor STRÖLL. A great deal, gentlemen, of what I should feel like saying has already been said, and the differences of opinion, if perhaps not altogether with respect to their grounds, yet with respect to the net outcome, are comparatively so slight that I can afford to be very brief.

In regard to the issue of small bank notes, I am of opinion that it is the best means of tapping the gold mines within the German Empire and of bringing the gold where it can do the most good, that is to say, to the Reichsbank. We have no accurate statistics concerning the extent to which the small notes have thus far displaced other kinds of currency in the circulation, and the president of the Reichsbank himself has not been able to submit to us anything more than merely provisional data. But in any case we can note a gain. There is no doubt that the metallic stock of the Reichsbank has increased

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enormously, and this coveted increase is certainly to be ascribed in part to the issue of the small notes. Freiherr von Gamp remarked to-day that he regarded the small notes as the money of the small man. I can not by any means agree with him, and I believe that in regard to this matter Freiherr von Gamp has altogether misunderstood Herr Fischel.

Mr. FISCHEL. That is not at all what I meant.

Doctor STRÖLL. The fact being that even the more well-to-do classes, in which perhaps the circle here assembled is to be included, have used the small notes to an immense extent, Herr Fischel was undoubtedly referring to the petty transactions of ordinary everyday business and not at all to the daily monetary transactions of the propertyless classes. As far as I have been able to observe, the small notes are already circulating very extensively among the well-to-do classes. It may be that these small notes are not exactly popular, but they have long ago ceased to be so unpopular as it was feared at the time of their issue that they might be, and this, to my mind, is the main thing, for their popularity is bound to increase from day to day and will ultimately produce the desired effect with regard to the monetary conditions in our country. I had myself at the outset certain objections to the small bank notes, and I am even now not in favor of an excessive issue of them. I hardly think we ought to have more than about half a billion marks. What I was mainly afraid of was that too many hundred-mark and thousand-mark notes might be forced out of the circulation and that thereby in place of the volume of bank

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notes which would be available for the purposes of credit if the reflux from the circulation to the Reichsbank was a rapid one, we might have perhaps an unmobilizable mass of these small bank notes, which remain out longer in the circulation than those of large denominations. This objection on my part has, however, been overcome, in part through the statements made by the president of the Reichsbank and in part through my conviction that the Reichsbank will come out of this bank inquiry and the deliberations in the Reichstag and Bundesrat vindicated with respect to its policy in the matter of the issue of notes, and that the quota which is to be available for the needs of capital will be materially increased. Otherwise I am fully in accord with the view expressed to-day by President Kaempf. The main thing, in my opinion, is to get the German public first of all habituated to the use of the small notes. I consider this of immense importance with reference to a time of crisis, for I regard the small notes as a type of money eminently adapted for times of stress, when gold is hoarded up and disappears from circulation. I believe, however, in any case, that we should have certain guaranties in regard to the small notes. This matter has been referred to repeatedly in to-day's discussion, and the Reichstag will doubtless take some action in the matter. The new notes ought to be æsthetic in their design, protected against counterfeiting, hygienically clean. No one, of course, will find fault with the 20-mark note. It has won the favor of the public very quickly, much more so than the 50-mark note. I think it

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is very respectable æsthetically, and in any case I like it much better than the 5 and 10 mark treasury notes.

I can not for a moment understand how anyone can indulge in fears regarding our coming down to a paper basis on account of the issue of small bank notes. What we are mainly intent upon doing is not to increase the bank-note circulation, but merely to change the proportions of the various denominations.

As regards the extension and popularization of the deposit-and-transfer system of payments, all I have to say is that the development of any system of payments that tends to diminish the use of cash is an object to be most zealously striven for. Without such an institution how should we ever be able to provide the monetary means demanded by the constantly increasing volume of our pecuniary transactions and by our growing population? That a good deal has already been accomplished by the legislation in regard to checks is incontestable, but then the system of payments by check is only a preliminary stage to the deposit-and-transfer system and to the transfer arrangements, which are far more advantageous than the mere check system. In my opinion a great deal has already been done in this direction, when we consider the organization of the Reichsbank. We have fourteen or fifteen Reichsbank clearing offices in Germany on rather a large scale, and if these clearing offices are joined together by a common organization I believe that very useful results can be attained in this regard. For my part, I think and hope that the proposals of our esteemed Herr Geheimrat Rieser, who is unfortunately not here just now, will attract

general interest, and that from these proposals there will come an outgrowth of practical organizations which may come to be exceedingly important.

As regards its mechanism, the Reichsclearing may be a very difficult undertaking, but difficulties of mechanism have never yet prevented the Reichsbank from making an advance in any direction when it was necessary and possible for it to do so. On the whole, however, I believe that, as some one has rightly observed, we have much less to expect from an organization proceeding from above than from patient educational drudgery which shall work gradually upward; and therefore I do not consider it wise to force any organization upon the people. Excess of zeal, in my opinion, is only harmful, and in this case it might create stillborn things. For instance, I remember an organization which was formed exactly a year ago in this room—the Hypothekenbankskontrol. This organization—my esteemed vis-a-vis, Freiherr von Cetto, will bear me out—was a stillborn child; at least with us in South Germany no use at all has been made of it. Perhaps a contributory circumstance has been the fact that in South Germany we do not have negotiable mortgage papers, but only book mortgages. But if this is so, it should, I think, have been taken into consideration, and we should not have put forth from the council chamber an organization which is in part only a paper scheme, and which is not put into practice in South Germany. In my opinion it is only by a slow and gradual process that we can make an approach to the English situation, and especially as the blessings of a lowering of rates of interest can be introduced among us only step by step.

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As for the increase in the deposit minimum, this plan accords ill with the general tendency of the Reichsbank to promote the deposit-and-transfer system; at least as a general measure I am certainly opposed to it. Of course if an individual account involves too much work, special treatment may be called for. But I should strenuously oppose any such general increase of the deposit minimum as was once effected. At that time it gave rise to a great deal of ill feeling, to loud complaints from the business world, and to reactionary measures. Director Schmidt recounted to us to-day a few examples of such measures, and in South Germany, too, we had some experience of this sort of thing; we saw particular concerns doing their own clearing business; we saw payments made by postal money orders, etc.; the question was often asked whether it was really worth while to maintain a bank account. At any rate, we ought not to proceed at once to an increase of the deposit minimum. Nor do I think that this is the intention of the Reichsbank, for, as I have said, it would be absolutely inconsistent with the general tendency which we have been glad to find guiding the conduct of the present bank administration—the tendency to work not merely with a view to financial expediency from the bank's standpoint, but also with a view to the interests of the community as a whole.

Now, as for the purchase of checks by the Reichsbank, I believe that this branch of business will not create any very pleasant relations for the Reichsbank, and that it will not be at all easy to regulate it. But all the same I am convinced that if we have in the German Empire the imperial check law which we owe chiefly to the initiative

of the former Reichsbank president, Doctor Koch, then the Reichsbank will find it hard to refrain from buying checks. In what manner this will happen, or can happen, will appear from the regulation made by the Reichsbank, which will of course be carefully weighed in all its aspects.

At this point I will permit myself to suggest to the Reichsbank management that, if the new Reichsbank act is to empower the Reichsbank to buy checks, the private banks of issue should not be forgotten. This will give us small satisfaction, but I think that if the Reichsbank buys checks the private banks of issue will also have to be allowed to do so; and the practice will probably result in these banks adopting for their own use the regulation made by the Reichsbank. How the regulation will turn out I do not know; but I think the process will not be essentially different from that of the discounting of short-time bills. One signature will of course be altogether insufficient; two signatures must be demanded, for the Reichsbank must be kept on an absolutely safe footing. The Reichsbank will have to look especially to the last signer. The suggestion of the Reichsbank president, that the discounting of checks be limited to depositors, seems to me good; for these are people from whom the Reichsbank knows what it may expect, and when a depositor hands in a check the Reichsbank runs much less of a risk than when some third party hands one in. Incidentally, we must not forget to try to instruct business people in the advantages of deposit-and-transfer bank accounts. This is also in accordance with the tendency of the latest

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developments, and every demand made in pursuance of this tendency should be eagerly complied with.

As for interest-bearing deposits, I think I can sum up very briefly my view on this matter. Ideas on the subject have already been advanced, and on this particular question there was absolutely no difference of opinion. Even Freiherr von Gamp said that it would not be suitable for the Reichsbank to undertake this branch of business, and that the matter might as well rest on its present basis. The present basis is as follows: The Reichsbank is now empowered to accept, without asking consent of anyone, interest-bearing deposits not exceeding in the aggregate its capital and surplus—that is, a quarter of a billion. Twenty years ago it carried on this business; then it gave up the practice, and I can well believe that this was done after careful consideration. For what point is there in having interest-bearing deposits in the Reichsbank? The deposit-and-transfer moneys, the noninterest-bearing deposits, etc., it has anyway; it is not likely that the Reichsbank will ever be either willing or able to take and use savings to any great extent. In any case, I do not see why the sum of a quarter of a billion should be exceeded. Therefore, as I have said, I consider the present regulation satisfactory, and I am opposed, on general principles, to the efforts made to turn the Reichsbank into an imperial deposit bank. I should not approve of having the deposits more centralized than they have been hitherto; for that matter, I look forward rather to a decentralization of deposits, since I think the people of a State or of a district have some

claim to the employment among them of the money they have saved. I do not say that the present concentration of deposits seems to me already to contain an element of danger, but I do think that, for the present, sufficient progress has been made in the process of centralization, and that we should not authorize or encourage a further centralization in the Reichsbank. In my judgment, the tendency should be resisted; the Reichsbank should not be burdened with interest-bearing deposits, for in good times they are merely a burden, while in hard times they undoubtedly constitute a danger, since they may be partially withdrawn. In this matter, therefore, I agree with the other gentlemen who have spoken that there is absolutely no need of our making any change in the present conditions, according to which the Reichsbank is already permitted to engage in this business to a certain extent.

I shall now permit myself to ask his excellency—since he has been so kind as to say that members from out of town may speak on Question V—whether I should now take up that question; I do not know whether the present moment is the proper time for it.

The CHAIRMAN. I should like to wait until we are done with this question; but at the proper time I will interrupt and ask the gentlemen to express their views on Question V.

Doctor WACHLER. Gentlemen, in our discussion hitherto we have taken great pains to consider how the Reichsbank may best be provided with plenty of gold, and I hope I shall not be misunderstood if I say at once that I think we have given somewhat exaggerated attention to the stock of gold in the Reichsbank, for it has been

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several times asserted that it is not sufficient to take care that the gold cover for notes issued by the Reichsbank be considerably increased; that we must also make sure that there is a gold cover in the Reichsbank for all minimum deposits, and indeed for all deposits of any kind. I have expressly said that I beg you will not misunderstand me. I agree that it would not hurt the Reichsbank to procure as much gold as it can in good times; but on the other hand I would say that we must consider that the gold held in the bank brings in no interest, that it costs us money, and that consequently we should not in our anxiety increase it beyond reasonable limits. There is not the slightest occasion for doubting the trustworthiness of our gold currency on the ground that the Reichsbank has not a sufficient cover for deposit money. For the main reserve is, in the last analysis, the strength of the nation, the strength of the whole economic system, and we must not forget that our present economic situation, while not very prosperous, is yet sound, so that we may indeed assume that all bank notes that are afloat as a result of transactions in the discounting of notes have a perfectly adequate cover in the bills that are in the possession of the Reichsbank, in the actual business transactions on which they are based, and in their ready convertibility into cash. It can not therefore be said that the situation of the Reichsbank is less secure because, while a sufficient gold cover is indeed provided for the notes in circulation, there is not a sufficient gold cover for the other liabilities of the Reichsbank. It seems to me that we should be going too far if we were to prescribe for the Reichsbank, in addition to a fully adequate gold cover

for the notes in circulation, a special gold cover for the deposits. No such extreme regulations exist in other countries.

After we have considered in all its bearings the question of how gold can be brought into the Reichsbank from abroad, we come to the discussion of means of bringing gold into it from our own country; and here the issue of small notes enters at once into the question. I am convinced that the introduction of small notes—20 and 50 mark notes—has the effect of bringing gold into the Reichsbank from domestic business, and I think, too, that the effect upon our monetary system would also be altogether beneficial. I have often tried, in the course of the past year, to find out whether there really is much gold in use in ordinary retail business. For instance, in the last two days, whenever I have had to make small purchases, I handed out 100-mark notes, and in no single case did I receive anything but gold. When I had 4 or 5 marks to pay for different little purchases, I invariably received 80 or 90 marks in gold as change for my 100-mark note, and the rest of the change was invariably handed me in silver. This afternoon I drank a cup of coffee, gave a 20-mark piece, and received a 10-mark piece and the rest in silver; I took this change to the Reichsbank in order to get new 3-mark pieces for it, but they were difficult to procure, because at the proper counter for them this notice was posted: "There are no more 3-mark pieces to be had." [Hear, hear! and laughter.]

Well, gentlemen, surely these experiences go to show that a great deal of gold is to be found in use in retail

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business, and I think the issue of small notes by the Reichsbank will have the effect of causing a certain outflow of gold from the channels of business into the Reichsbank—and this I should regard as an excellent thing. I do not agree with Freiherr von Gamp, who has declared that the abundance of gold in actual circulation is our real reserve, but on the contrary I maintain that this is actually no reserve at all, because we do not know its amount, because it is absolutely impossible to trace it, and because there are absolutely no means available to us for exercising an influence upon it. [Very true!] On the other hand, if the stock of gold is in the vaults of the Reichsbank, then we can keep our eyes on it; then we know how much it is; and then, too, the Reichsbank is in a position to make use, if necessary, of defensive measures for holding on to this gold reserve as against international demand; whereas now it has no means of knowing when international business tends to draw the gold out of the country, because it is hardly able to observe the outflow which comes from the general circulation, and therefore can not know how much gold is going out. And yet the regulation of the monetary circulation in the country is a chief function of the Reichsbank, and it can certainly perform that function more readily if it holds the gold itself.

Count Kanitz asserted—and Freiherr von Gamp afterwards reenforced the assertion—that gentle pressure was brought to bear in order to get the small paper money introduced into business. I think there is certainly a prevailing misunderstanding on this matter. At the very time when the small Reichsbank notes were issued, I hap-

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pened to be in industrial districts, especially in Silesia and Saxony, and I was greatly interested—since I considered the measure a good one—in finding out whether the plain man received his pay in the new paper money. I looked about to see how the cashiers and pay officers on the one hand, and the workmen on the other, reacted upon the situation. I was invariably told the same thing both by the foremen and by the cashiers; they had been informed by the Reichsbank office that small bank notes would be provided for their use instead of the crowns (which were needed in business to such an extent that the demand could not be satisfied), and that they for their part would do well to promote the circulation of these notes. Nor did I hear any serious misgivings expressed on the subject in any quarter. To be sure, it was at the very first, when everybody said to me: “Oh, the people are going to take it quietly.” Certain difficulties did present themselves at the offices where the wage money used to be given in transparent paper bags, and the recipient could feel whether there was the right amount in his bag, whereas this was not possible in the case of the paper money. Thus the pay officers were somewhat in doubt as to whether it would be easy to keep on paying wages in this way. I have since heard, however, that people made no objections whatever to the bank notes; that, to be sure, this sort of money could not be adapted to the system of payment in bags, but that the men counted their pay a second time; and, finally, that in this way the notes supplied a very necessary substitute for crowns in ordinary payments. We were all agreed that the crown is of all forms of money the one which is most quickly worn out,

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that consequently it is not a desirable form, and that we must provide a substitute for it. I do not deny that this substitute could perfectly well be provided in the form of hard money; but in consideration of the great weight of large amounts in coin people prefer paper money—or at least like it just as well.

Then, too, sanitary arguments have been advanced against the circulation of notes. But think of all the things we take into our hands every day, and think what a host of bacilli we must absorb! [Laughter.] Well, we certainly are not called upon to handle paper money as often as we handle other dirty things. Take, for example, the enormous quantity of newspapers and magazines we are always handling; and at a restaurant, for instance, no matter how hard we try to remember not to touch them with wet fingers, we are sure to forget—I know that from my own experience. In handing out or receiving paper money, this habit of wetting one's finger at one's mouth is, I believe, not so common. So the sanitary considerations are not really as important as they are often supposed to be. I admit that the paper money is less pleasing to the eye than one would wish; but its looks surely do not settle the question of whether or not it will come into general use, even though an improvement in this regard may be desirable.

I deny, therefore, that any influence having in any degree the character of external or even moral pressure was brought to bear in any quarter to bring about the use of the paper money. This, too, I should consider unwise; and I should concur in the opinion, already expressed elsewhere and repeated here to-day, that only

so many bank notes should be issued as business is quite ready to take up. But I have never heard—and the reports we have had from the Reichsbank have instructed us on this point—that any of the paper money that has so far been put into circulation has failed to be availed of; on the contrary, the president of the Reichsbank has informed us that even all the paper money that was at first regarded as provisional has been made use of in the channels of business. If this were not really the case, if the channels of trade were clogged with unwelcome paper money, then the paper money would surely be coming back to us by this time. I have already recounted how, out of a great many 100-mark bills which I have handed out in the last two days in order to test this point, I did not get back a single note, but always only 20-mark pieces, and from this I am justified in drawing at least this conclusion, that in ordinary business there is no superfluity of paper money, nor any feeling of its being inconvenient, nor any aversion to it; for otherwise I should certainly have got some back. Anyway it is very hard to decide whether a given medium of exchange is liked or not. I think that from the data before us no certain conclusions are to be drawn to the effect that the greater number of the men who have to do with this kind of money do so unwillingly; indeed we have not yet had nearly enough time to warrant us in passing a definitive judgment as to the outcome of the thing, or even in beginning to collect statistics on the subject. We must wait a while at least before pronouncing a final judgment. Perhaps in a few years the situation will wear a different aspect, and then we shall be able to discuss the matter

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further. But at the present time statistical investigations, such as have been recommended by one of our members who seems to have a great penchant for statistics, would in my judgment be very premature.

Freiherr von Gamp said that small notes involve this great danger—that if there is any misgiving expressed as to their soundness, a run on the bank would be likely to result, and that a run of this kind would have a much worse effect than in the case of large notes, because the small notes are used by the poorer classes, who would come flocking in great numbers to get them redeemed. Theoretically I believe this to be a mistaken idea; but there is no real use in discussing the matter, since we can not tell how the thing would work out in practice. Any such assumption is false for this reason: If mistrust of our gold standard is once aroused, if it can be generally asserted—no matter with what degree of justification—that the notes, whether 1,000-mark, or 100-mark, or 20-mark, or 5-mark notes, are not absolutely certain to be redeemable in gold, then all notes, large as well as small, will be presented for redemption from all sections of the community at the same time. But we must take into consideration, too, that the great masses of the people are not so very easy to set in motion, that in point of fact all sorts of people would come trooping up together to present the little notes, and that besides the inflow of the small notes only, of which there are in all only 300,000,000, would in any case be the lesser evil—not to mention the fact that it is a mistake to suppose that the small notes are used only by the people of small means; they are

really absolutely indispensable also in large business and among well-to-do people.

Nor do I think it right to say, as many do, that the small notes replace only larger notes; for I think that the use of them unquestionably causes gold also to flow into the Reichsbank, and to stay there longer, since it is generally recognized that small notes remain longer in circulation. It has also been denied by the experts that the check and deposit business would be restricted by the issue of small notes, and I do not believe that it can be maintained that such an effect would occur; for the deposit-and-transfer business, which certainly only serves for the making of large payments, has not as yet been developed to the point at which it can serve the purpose of making the little payments in which the great masses of the population are concerned. I am constrained therefore, to answer unconditionally in the affirmative the question whether the issue of bank notes of small denominations is calculated to improve the condition of the Reichsbank.

As to the preservation and further development of the deposit, transfer, and clearing business, so much has already been said on this subject by persons more competent than myself that it is not necessary for me to enlarge upon it. I have heard no one express the opinion that this business is not to be regarded as worthy of encouragement. One of our colleagues has, indeed, expressed a doubt as to whether the gold stock of the Reichsbank can really be strengthened by this means; on the other hand, I may mention that while, according to the Reichsbank's statistics, the clearing business here in Berlin alone

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amounted in the year 1900 to 8,500,000,000 marks and the entire clearing business of the Reichsbank to 29,500,000,000, seven years later—that is, in the year 1907—it had increased so rapidly that the clearing transactions in Berlin amounted to 15,500,000,000 and in the entire business of the Reichsbank to 45,500,000,000. These are enormous sums, and if the settlements had not been made by means of the clearing process, they would have had to be made otherwise—that is, by the use of actual circulating media; and therefore it can not be doubted that a further extensive and intensive development of the deposit-and-transfer business would have the effect of ultimately strengthening the Reichsbank's stock of gold.

In connection with this question, special attention has been directed to the fixing of the minimum for bank balances. I agree with those who look upon an increase in the deposit minimum as unquestionably harmful in its effect upon the development of the deposit-and-transfer business. And I can testify from my own experience that several small manufacturers and tradesmen have said to me that they could not think of establishing for themselves a direct connection with the Reichsbank, since the burden of keeping a minimum deposit such as is demanded by the bank officials seems to them prohibitive. Besides, many depositors in the branch offices of the Reichsbank regard it as a hardship that—and this is a point that was often made in the hearings of the experts—besides being obliged to keep a minimum deposit at the bank, they were expressly requested by the Reichsbank officials to transact other business at these branch offices, and especially to discount bills there. We have already heard the Reichs-

bank president say that he does not approve of any such method of conducting the branch offices. I think that this statement will justify us in not taking any further steps to make the opening of Reichsbank accounts more difficult, and even in taking every available means of increasing the number of Reichsbank accounts—even for small handicraftsmen and small tradesmen who have an account of only 3,000 or 4,000 marks. And indeed an increase of the deposit minimum really can not be called for, for the minimum deposit, according to the reports, is much larger than that demanded by the regulations. There is therefore no practical necessity that the Reichsbank should compensate itself for its pains by fixing a higher figure for deposits.

Still more mistaken, in my judgment, would be a measure providing that part of the minimum deposits of the Reichsbank be interest-bearing. I can not understand how Freiherr von Gamp, who has expressed himself as decidedly opposed to the acceptance of interest-bearing deposits by the Reichsbank, can be heartily in favor of having any part of the minimum deposits at the Reichsbank subject to interest. For this is an essential contradiction; if once we give interest on deposit-and-transfer accounts and think it a good plan to do so, I do not see on what ground we can regard the acceptance of interest-bearing deposits by the Reichsbank as an unmitigated mistake. I think it is perfectly just for the Reichsbank to demand compensation for the trouble of the deposit-and-transfer business and for the other activities in which it is engaged, and I believe that such compensation can best be found in the requirement of a certain size for the bank accounts; but I do not think

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we ought to consider the proposal made by some of the experts, that in the cashing of checks and the discounting of bills special charges be made in order to compensate the Reichsbank for the trouble of the deposit-and-transfer business. There are several branches of business in which the Reichsbank engages, and it may as well estimate its profits in accordance with them all collectively.

For the rest I would say that I am not enough of an authority to prescribe any course of conduct for the Reichsbank. The experts at their hearings made many different proposals for the invigoration and extension of the deposit-and-transfer and check business, and the Reichsbank can best judge for itself what part of these proposals can be made use of to greatest advantage by its administration.

As for the acceptance of interest-bearing deposits, the experts who were heard on the subject seem to have been not at all favorably disposed toward it. All those who considered the question exclusively from the standpoint of the management of the Reichsbank expressed themselves opposed to the acceptance of interest-bearing deposits, and those who spoke in favor of it did not, it seems to me, give their opinions from the standpoint that such a measure would be advantageous for the Reichsbank, but rather from the standpoint that it would cause circulating media to be withdrawn from the private-credit banks. I shall not go further into the matter, since in the discussion of Question VI we shall have an opportunity to return to a consideration of the motives which led the different experts to speak for or against the acceptance of interest-bearing deposits by the Reichsbank, as well as

to a consideration of the consequences that would ensue to our economic life. I must confess that I consider the wish to curtail the deposit resources of the great banks to be very petty and utterly mistaken. But as for the grounds on which the Reichsbank can be recommended to accept interest-bearing deposits, the first thing to take into consideration is that the very men who recommend the plan have attached to it conditions that render the whole scheme absolutely illusory. The only condition that would make the plan on any account acceptable in principle would be that the amount of deposits should depend upon the amount of the capital of the Reichsbank, or upon any other sum that might be fixed upon, so that the Reichsbank should not be allowed to take deposits in excess of that amount. But in practice even this would not work, because the inflow and outflow of money at the Reichsbank and at its different branches is so enormous and so variable that in any one day it would be quite impossible to tell whether the limit set were overstepped or not. Thus even this proposal, though it is plausible enough, is, when it comes to the point, impracticable. The other proposals that have been made—for example, that deposits bearing interest be taken only on condition that a longer notice of withdrawal be given, or only at a lower rate of interest—would defeat the very purpose of the measure; for under these conditions, with all the competition that exists for deposits all through the banking and business world, the Reichsbank would certainly receive no such deposits at all. If the interest offered is 2 per cent, or perhaps less, we can not suppose that the prospective depositor, even if he were satisfied

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with this rate, would give his deposits to the Reichsbank if he were obliged also to wait three, four, or five weeks before being allowed to withdraw his money. The people who are satisfied with so low a rate of interest, and who are chiefly interested in getting a safe investment, will at least insist upon being able to make use of their money at a moment's notice; and in every place where there is a Reichsbank office there are so many absolutely safe institutions where they can deposit their money that they do not in the least need to resort to the Reichsbank. Therefore, if any such condition were made for the acceptance of interest-bearing deposits by the Reichsbank, the effect of the measure would be nullified, or at least it would be negligible.

Our colleague Raab is very much worked up over the fact that our beloved countrymen who live in the primeval forests have no opportunity of sending their savings here. [Laughter.] Freiherr von Gamp has already pointed out that this sort of social service to our good countrymen in the primeval forests is no part of the duties of the Reichsbank.

I wish now to say a few words more about the purchase of checks. Doubt has already been expressed whether a strengthening of the Reichsbank's stock of gold could be brought about in this way. I leave that question open, but I should like to remind you that in regard to this very question of the purchase of checks there was developed in the hearings of the experts a great variety of views as to what ought to be done. All these are to my mind technical banking questions. Theoretically I should see no harm in the Reichsbank's being allowed

to purchase checks. What technical measures it shall introduce in this connection must be left to the Reichsbank to determine; a sufficient number of considerations have been submitted to the administration by proposals that have come both from speakers in our assembly and from several learned experts; and the Reichsbank administration, placed as it is on the high watch tower and at the very center of our whole money market, will be much the safest judge of the comparative merits of the many measures suggested.

Mr. GONTARD. After what I said this morning in accordance with the order of the day, I should consider myself wanting in modesty if I were to expound my opinion, which I am very glad to find agrees, especially on the question of notes, with the views expressed here by almost all of you. There is one thing, however, which I did not convey to you—which, indeed, I can not convey to you—and that is, what a great influence the measures under consideration here have upon the smaller manufacturers and tradesmen, or—if you will permit me for the sake of brevity to use an expression which I should otherwise avoid on account of its indefiniteness—upon the middle class; the interests of the private banker must coincide approximately with the interests of this class. I am unfortunately obliged to rest my hopes, so far as this matter is concerned, upon those members of the Reichstag with whose views on other questions of this nature—for instance, on the question of treaties of commerce—my views are in diametrical opposition.

One point made by Doctor Schmidt this morning was that the increase of the deposit minimum would be very

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likely to send the smaller manufacturers and tradesmen to the great banks. I have the greatest respect for the great banks; I hope they will be further developed, and as a patriot I am grateful to them for what they have done for the economic development of our country. On the other hand, I agree with Herr Geheimrat Wagner that the middle sections of the community must be protected, and that in this matter, too, everything must be done that may contribute toward this end. Therefore I am in favor of our taking every means to bring about a direct business relation between the middle class and the Reichsbank. I will even go so far as to say that in so far as it is possible the intermediation of a bank must be avoided. Cashing and buying of checks can be managed in that way, and also credit transactions. The banker, too, has his reasons for being so anxious to accommodate the public in the matter of checks.

In the first place, it brings in custom. It has been repeatedly asserted that the legal business of negotiating loans has been transferred from the banks to the Reichsbank. I will not go so far as that. But why does the banker solicit custom? The custom in question is mostly custom that has never before applied for credit. To induce this custom to apply for credit is, in my opinion, to act in opposition to the interests of the middle classes. Of course, it is a matter of the investment of money; but if the investment of money is carried too far, or undergoes too frequent changes, then it amounts to speculation. I can not, therefore, concur in the opinion expressed to-day that it would be a good thing for every one to have a bank account.

The other consideration that induces the bankers to solicit the presentation of checks is that they are thus provided with information. On this point a highly respected member of the commission has said: "I am of the opinion that the Reichsbank would be enabled to inform itself much more accurately about its depositors if as many transactions as possible were made through its transfer system." Though it is the deposit-and-transfer business that is here spoken of, what is said applies also to a certain extent to the banks; for a clearing house in the hands of the great banks, and, for that matter, any check business, will give the banks information about its customers—and this is not always an advantage for the customers. A Silesian banker, for instance, has told us that the checks are almost all sent by the bankers to Berlin, and I heard the same thing in Leipzig; in this sphere too, therefore, there is a certain tendency toward centralization, which seems to speak in favor of the institution of some such clearing house among the banks.

I am fully persuaded, gentlemen, that every customer, even a middle-class customer, must render the banker some service; that is, if he expects the bank to do something for him, he must do something for the bank in return; that goes without saying—the banker wants to live, too—and not so very poorly, either. [Laughter.] But as for a moral obligation binding the middle classes to the banker, there is no such thing.

Herr Kommerzienrat Rinkel has spoken of a monopoly that is given to the banks by the check system. In the sense in which I understood Herr Kommerzienrat Rinkel to use the word, I do not think there is any ques-

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tion of monopoly; but there is another monopoly, and that is the monopoly of the account check, which forms a chain attaching the middle class to the banks—a chain from which it can perhaps be freed only by the Reichsbank. I admit that the postal check system, if, contrary to expectation, it should maintain itself, or the savings banks, if they are roused out of their present partial lethargy, may be of great service; I admit also that in many parts of Germany the cooperative banks have done a great deal. But I think that this point demands very careful consideration.

Upon the other questions I can sum up my view very briefly. Above all, of course I am in favor of the clearing system after the Hamburg model; next in order I place the deposit-and-transfer system; and in the third place I put the check system. Whether the thing turns out well will depend upon what conditions the Reichsbank makes. I think that the customers of the Reichsbank should be offered some inducements, so that the Reichsbank may have as many customers as possible, and so that the deposit-and-transfer system in general may be put on a higher footing. But if a clearing system is not established through the Reichsbank, as under certain circumstances I should wish, then I had rather answer yes to the question that Herr Peter put in the spring than go over to the view of Herr Geheimrat Riesser, in spite of all the difficulties in the way of carrying out this plan. I believe that the clearing system would be of the greatest value to the Reichsbank, because, as Herr Geheimrat Kopetzky has said, the Reichsbank is concerned in having the life of the check shortened as much as possible, so that the

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deposit-and-transfer system may be put on a higher plane.

I was particularly interested, in the course of our inquiry, in the proposal of Herr Kommerzienrat Leissmann that we introduce Vaglia checks. The chief problem connected with the deposit-and-transfer system is the education of the public, and it will be a long time before we really accomplish anything in that line.

I should like to call your attention to an example that may perhaps interest you—the case of the Leipzig booksellers. The Leipzig booksellers, who up to a certain point were really the first inventors of the clearing system, are making strenuous efforts to put it on a better basis. Nevertheless it still happens that at Cantate, where accounts are balanced, the very packages of money that are taken away in the morning are often brought back again to the same place in the afternoon. At first glance this seems very strange; but when we look closer into the matter, we find that there are after all economic reasons for it—among others, the fact that in the book trade there is this peculiar situation: The money covering the cost of production must be paid at once, whereas the money for the finished product, the book, is turned over to its final destination only once a year.

I think that the same thing is true in many other places. We suppose at first glance that it is nothing but indolence, but when we look more closely it appears that there are economic reasons for the phenomena in question. But if it takes so long for the system to get itself introduced in these intelligent sections of the community, how long will it be before the deposit-and-

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transfer system is as fully developed in the country at large as we wish it to be?

I also am opposed to an increase in the deposit minimum. In the case of the large business men, such a measure would lead to a curtailment of deposits and to payment by check; in the case of the poorer classes, it would lead eventually to their withdrawing from the Reichsbank altogether. With reference to the smaller people, I would say that perhaps even now a change in the clientèle of the Reichsbank is about to take place in consequence of the introduction of the postal check system.

As to the determination of the deposit minimum, I am of the opinion that all depositors, including the bankers—even including the most important bankers—should be treated with absolute impartiality and justice. But precisely in connection with this function the Reichsbank must be allowed to act on mercantile principles. And the Reichsbank must not make its system public; it would be a great mistake to penalize people engaged in industries by raising the deposit minimum in case they did not present any bills. Yet I know of many instances—I should present them if I had time—in which the Reichsbank has been particularly obliging toward members of the industrial world in the matter of the deposit minimum.

The same reasons that hold against interest-bearing deposits hold in general also against the payment of interest on the minimum deposits; besides, in critical times the plan would fall through.

With regard to the deposits,^a I wish also to say that I do not think the Reichsbank will have any considerable

^a I. e., interest-bearing deposits.—TRANSLATOR.

success with them. The reasons for this belief have already been presented by others. The public will not set as much store by safety as it is expected to do, and therefore my advice is decidedly against the acceptance of deposits.

A VOICE. By safety?

Mr. GONTARD. I will correct my expression. Of course the public will set great store by safety; but I think the great banks are rightly held to be in many respects almost, if not quite, as safe as the Reichsbank. As for the competition that would be caused by the acceptance of deposits by the Reichsbank, it would be felt chiefly by the cooperative banks.

As for the purchase of checks, I have already brought forward a few considerations pertaining to that question, and I now add that the purchase of checks is to be recommended in so far as it is the indirect cause of an improvement in the status of the deposit-and-transfer business. But in what way the purchase of checks is to be managed is a problem which, now that we have made a great many suggestions, we must leave to the Reichsbank itself to solve; and we may be very sure that the Reichsbank will act in accordance with the interests of the community.

Mr. FISCHER. Greatly as I should deplore the withdrawal of gold from the channels of the great body of ordinary retail business, I am convinced that this section of the business world is overstocked with gold, and that at least half a billion, perhaps a whole billion, could be withdrawn from it and be better provided for in the vaults of the Reichsbank; we must have been convinced this morning that the Reichsbank has room for it. And to

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this end I think that the further issue of Reichsbank notes of 50 and 20 marks might be largely conducive; and I think that the figures furnished us this morning—that, from the time of the greatest tension in the Reichsbank last December until now, only 17,000,000 out of the 290,000,000 marks of small bank notes that were then issued can be shown to have been turned in—these figures, I think, are an extremely good sign; for they indicate that in the future, too, the small notes will not come flocking in, as many people think they will. If, then, business retains them and will take more of them, I should consider it very advisable to issue more small notes. We have heard that in many quarters they are much disliked. I admit that the two instances given bear out this assertion so far as they go. For a commanding general to receive his salary in 20-mark notes is just as absurd as for a common workman to be paid his wages in small notes. But between these two extremes there is a very large portion of the community for which 20 and 50 mark notes are to my mind very well suited; and I think that among the middle classes an enormous quantity of small notes can be introduced, and that this would have the effect we all desire—it would cause a great deal of gold to flow into the Reichsbank.

It is an established fact—and I hope nothing will occur to change it—that for a long time we have all been directing our efforts toward the general introduction of the clearing system, the deposit-and-transfer system, and also by all means the check system; and I am very glad that we shall soon see the introduction of the postal-transfer system also. I believe that this will be a very effective

educational factor, and I strongly urge all who have a chance to do so to promote this system. Its first introduction seems to me to have turned out not quite as we might have wished, and it would be well if the improvements that are suggested by the practical working of the system could be effected as quickly as possible, and if all those who have anything to do with the matter were to do what they can to bring this about.

I must express with all possible clearness my objection to an increase in the minimum of noninterest-bearing deposits. There are two more reasons of real cogency that may be assigned against such a measure. It is certainly strange if here in Berlin there are even a few of the more important banks that have not accounts of their own at the Reichsbank, but have this business managed for them through other banks. That is very inconvenient both for the business people and for the persons not in business who have to do with these banks, and besides it looks very odd. The only explanation I can see for it is that even now the deposit minimum demanded is too high, and I am convinced that if the minimum were lowered these people, too, would start deposit accounts of their own. Even the slight increase that was made last fall in the minimum deposits required of persons engaged in industry and trade had everywhere a very unpleasant effect; and I can tell you of an acquaintance of mine who, when the minimum was 8,000 marks, let more than 100,000 marks lie idle at the Reichsbank for many months, but declared, as soon as the minimum was raised to 13,000 marks, that on no account would he let more than 13,000 marks lie idle at the bank, but that he would take his

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money home with him and let it lie in his own chest. In South Germany, at least, people are very thick-headed about these things. [Laughter.]

There seems to be no occasion for examining more closely the advisability of the Reichsbank's acceptance of interest-bearing deposits, after such qualified judges have argued against it. The best-qualified judge of all is the Reichsbank itself, which has for twenty-five years not exercised this right, and has doubtless refrained from doing so on good grounds. But I wish to say, nevertheless, that there are a great many people who deplore the fact that the Reichsbank does not exercise this right, and who would prefer to have interest-bearing deposits at the Reichsbank, even at a low rate of interest, rather than at banks in which they have not the same confidence that they have in the Reichsbank; and the layman imagines it possible that with the help of interest-bearing deposits more or less of an influence may be obtained upon the rate of interest in the great business world. If the Reichsbank were always to give on deposits an interest of 2 per cent less than its official discount rate, then when the rate of discount was high a great many deposits would come in; then the rate of discount could be lowered, and the deposits would doubtless be withdrawn. If the Reichsbank raises the rate of discount again, it will receive deposits again; and this relation would necessarily have an equalizing effect upon very high and very low rates. I do not mind giving expression to this idea, because one hears it so often from the layman.

One can not very well argue against the purchase of checks by the Reichsbank, for all the efforts to introduce

the check are connected with the movement for having the Reichsbank also buy them. However, this seems inconsistent with our chief object, which is to encourage the transfer system and to discourage the use of cash checks; so I hope that if the purchase of checks by the Reichsbank is made legally possible, such administrative measures will be taken that very few checks will be presented to it to cash. If the Reichsbank charges nothing for entering large checks upon the account books of its depositors, the number of those who wish to get checks cashed will not be very great; and if a few do need money so urgently that they can not wait until it comes to them through the cashier, then there is no harm in their giving these transactions to other banks, which, after all, also pray for their daily bread.

Mr. SINGER. I, too, wish to urge that the Reichsbank be empowered to issue small notes in larger quantities. In my opinion, nothing has been adduced which proves that the increase in the number of small notes issued could involve any sort of risk for the Reichsbank or the public. The chief concern of the public is not that the note issue be large or small, but that the notes be absolutely safe—that is, that they be at any moment redeemable in gold. If we succeed in convincing the note-using public that this is the case—and I have not the slightest doubt that it is—then I think most of the misgivings of those who have to-day argued against the increase will disappear. If the public once knows that the safety of the notes is in no wise impaired by their being issued in lower denominations, then it is a matter of complete indifference to the public in what kind of notes it receives or makes pay-

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ments. The only thing that really enters into the question is the convenience of business transactions, which dictates that in the case of large payments large notes be made use of, so that too much time need not be taken up in making the transaction. Since, then, in my opinion, the security of the notes is not affected by their different denominations, and since, on the other hand, it can not be questioned that the small notes are in the first place necessary for business, and in the second place conducive to an increase in the stock of gold of the Reichsbank—in view of all this, I must say I can not understand how anyone who does not deny these points—and they have not yet been denied during the debate—can be strongly opposed to the issue of notes of small denominations. Really the only grounds that have been made to tell against them have been based on practical convenience.

Our colleague Raab has raised a great many objections, some of which, I will admit, seem to me not entirely unfounded. The argument from hygiene seems to me overworked; the Reichsbank can easily manage that by renewing the notes more frequently.

It is undoubtedly true, however, that in large sections of the community there is still a certain mistrust of paper money—not of the small notes particularly, but of paper money in general. This part of the public—the part our colleague Raab was speaking of—gets more pleasure from fingering a gold piece, or even a silver coin, than from fingering a piece of paper. The reason of this, as I have already said, is that in these classes there does not yet prevail the certainty that the paper given by the bank has exactly the same value as gold and that it is not reckoned

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at a lower valuation in the actual making of purchases; and it is very important that we should convey to these people how mistaken they are in thinking that paper money covered by the gold holdings of the Reichsbank is of less value than gold.

As for the other objections raised by Herr Raab—that paper money is dirty, and that mistakes may be made in payments—these are to my mind more or less unimportant objections; at least they certainly can not be regarded as decisive when it is considered that the general welfare of the people is better served by making the gold holdings of the Reichsbank as large as possible; and this is effected in a considerable measure at all events when an addition of 200,000,000 marks is made to the amount of small notes in circulation.

The example mentioned by our colleague Raab, of the postman who pays out notes in the morning and thinks that the same notes are in the post again by evening, can not be regarded as conclusive against the increase of the quantity of small notes. If the post-office messenger brought gold in the morning to the business people—especially to the small tradesmen—the gold would equally return to the post-office in the evening. This is a consequence of the business circumstances which oblige the small tradesmen to use immediately whatever money they may receive in order to make the payments they owe; the kind of payment plays no part in the matter. The notes are given away, not because the people do not wish to keep them, but because it must be done; and this would still be the case just the same if payments in gold were made through the post.

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I think, therefore, that when it is established that an increase in the number of small bank notes does not impair their security in any way, we shall in course of time succeed (the facts lead one to think so) in creating in the public a greater readiness to accept small notes than has hitherto existed. The more this feeling is introduced, the more the public is convinced that there is not the slightest insecurity about these notes, the more extensively will these notes be used as currency.

For the rest, I have never yet found that workmen will not take bank notes because gold is withheld from them. The notes will find the greater favor—and find it the more quickly—among the workmen the more notes the workmen receive; but the bank notes are not disliked by the workmen because they are paid to them as wages. I think, therefore, that it is a mistaken idea that in preventing the issue of notes of low denominations we are doing a favor to the laborer and artisan classes. If Herr von Gamp breaks into high moral indignation over the possibility that a workman might sometime dare to say: “I am not obliged to take over 20 marks in paper money; I want gold,” I explain this on the ground of the view which our honored colleague takes of the relation of the workman to the employer. He still looks at this relation from the patriarchal standpoint, and thinks that the workmen have to blindly do what the employers wish and blindly take what they offer. I for my part can not consider that a workman is doing wrong in making use of a right that is his by law and refusing to accept wages that are not paid him in gold. Unhappily there are not many workmen who receive weekly payments at a higher

rate than that of 20 marks. If such a thing should happen—to the horror of Herr von Gamp—the man will merely have acted upon his right, and I must say that the indignation over the possibility strikes me as rather comic. [Laughter.]

I should think, therefore, gentlemen, that the fears which are attached to the idea of issuing a larger quantity of notes of small denomination need make no impression upon the conclusions of the Reichsbank directors, who, by the way, have already full power to act in the matter. So far as I can judge, I am quite convinced that, even without the statistical proof demanded by Herr von Gamp, the view will prevail in the Reichstag that (of course always assuming that the security of the notes with regard to their gold cover be not impaired) there can be no reason for putting difficulties in the way of the Reichsbank's better fulfillment of its task of maintaining the gold supply.

The other questions that I wish to take up have already been so thoroughly discussed that I can content myself with a few words. I should like first to make some brief remarks about the check and deposit business. Like most of those who have spoken, I consider the extension of the deposit-and-transfer system on the part of the Reichsbank to be an extremely desirable measure, and I only hope that this system may come to occupy more and more of a place with us. But precisely because I hold this view I should regard as dangerous an increase in the minimum balance of depositors. I think, too, that my view must fit in with the views of those who wish to have the Reichsbank made of service not only to the great

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banks and to the industries, but also to the middle class; they must certainly agree with me that it is desirable that the middle class, the small tradesman and artisan class, should also be induced to bring deposits to the Reichsbank. But if you do desire this, gentlemen, then you can not possibly be in favor of a raising of the deposit minimum. Moreover, the Reichsbank itself would not profit at all by any such measure; for through raising the deposit minimum it would reject a class of possible depositors, and thus make the use of the deposit system more difficult.

Since the question of checks has also come up in this discussion, I should like to add a word on the subject. I am of the opinion that the naturalization of the check among the German public is of very great importance for our whole monetary system. But I must say that we are still very far from the situation here pointed to as the ideal for which we are to strive—that of having every tailor and shoemaker, in short every artisan, paid by checks. [“Very true.”] Gentlemen, let me speak of the situation in Berlin, which I know better than situations elsewhere. There the handicraftsman, as a rule, only waits until his bills are paid to him to settle with the money his account at the cloth merchant’s, the leather merchant’s, etc., not to mention the fact that the handicraftsmen are really so badly off that they generally have to spend these payments at once as wages for their workmen, so that they never arrive at the point of carrying the money to the bank, and they often have no bank account at all, because in order to have one they would have to keep some money idle, even if it were only a little. The situation is

not the same with us as it is in England, where this system has been naturalized for many, many years, although the example of England is often referred to. Nor is the situation even in England quite what it is generally represented to be; it is not true that there is no longer any circulation of cash. I know the circumstances in England very well. Formerly I used to spend several weeks every year in England; but I always saw cash in circulation there, too, and I saw that precisely the small needs, of which mention has here been made, are met in England, too, for the most part in cash.

Nevertheless, I think that we should put forth every effort to promote the check system so far as possible, and I therefore welcomed the idea of the postal check in the Reichstag, and that at a time when many were opposed to the postal check who are now favorably inclined toward it. But I must also insist upon this point—you will perhaps permit me to bring it forward on the present occasion—that what we suffer from in Germany in connection with the new postal-check system is bureaucracy, which puts many unnecessary difficulties in the way of all our state business institutions. The postal-check law is a living proof of this bureaucracy, schematism, and fiscalism. You, gentlemen, may remember the discussions, and you may know what objections were raised on our side against a number of the provisions of the act. I am still convinced that this act contains provisions which will necessarily throw obstacles in the way of the practical use of this new business method—provisions which we owe chiefly to the efforts of the agrarian parties, the representatives of which take part also in our deliberations. The

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postal-check regulations contain provisions which are far from permitting or encouraging the extension of the postal-check business to the requisite degree—requisite for the public, and requisite for the better regulation of the monetary circulation, and requisite also for the increase of the working resources of the post-office.

Well, for the present we can not change that; we must keep it in mind for a future time. All I wished to say was this: If the Reichsbank, too, engages in the check business, it should from the start take care, first, that the business be made not more difficult for the public in respect to cost than the private institutions make it; and, secondly, that a method be invented which shall be as far as possible removed from bureaucracy, and which shall make the use of this system by the public an easy matter.

Another word as to the receiving of deposits^a by the Reichsbank. I, too, am of the opinion expressed by most of you, that it is not a proper function of the Reichsbank to do so. According to the expert judgment given by the gentlemen who understand this matter much better than I, it has become perfectly clear to my mind that there is no question here of a considerable business for the Reichsbank. Nor is it possible that the real purpose of our deliberations—that is, the increase of the stock of gold of the Reichsbank—will be materially served by the taking of deposits.^a On the other hand, if the Reichsbank goes in for a deposit business, it will have to carry it on just as the other banks do; and in that case the activity of the Reichsbank will, it seems to me, be turned in a direction which can not be made to coincide with the Reichs-

^a*I. e.*, interest-bearing deposits.—TRANSLATOR.

bank's proper function—the regulation of our monetary circulation. I, too, think, therefore, that this question should be answered in the negative.

As for the suggestion of Herr Raab that domestic deposits^a be kept out of the Reichsbank, but that the Reichsbank should establish an office in which Germans might deposit money from other countries, I think that such an arrangement would hardly be worth while, in view of the fact that presumably no great demands would be made upon this branch of its activity. Moreover, the question would first have to be answered of whether there is any need, after all, of protection for the money of Germans who live abroad. Those Germans who live abroad and who find it necessary to deposit their savings in Germany may find outside the Reichsbank so many safe places where they can satisfy this need that it is not necessary for the Reichsbank itself to institute any such offices, for there is no question here of the advancement of a system that shall meet general public needs.

On the whole, then, I can subscribe to the views expressed here by most of the speakers; and I shall close my remarks by insisting once more upon the fact that we may with perfect safety increase by 200,000,000 marks the issue of 50-mark and 20-mark bank notes, and that all fears of our slipping in this way into a system of paper money and endangering our gold standard are absolutely baseless.

Doctor WAGNER. Gentlemen, permit me to make a general remark as to the impression that to-day's debate has made upon me. In my opinion the debate has gone

^a*I. e.*, interest-bearing deposits.—TRANSLATOR.

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further than was really called for by the statement of the question. The question as it was stated asked whether, and how far, and in what way, a reinforcement of the cash supply, and especially of the gold supply, of the Reichsbank might be brought about out of the channels of domestic trade. But in the course of the discussion of this question there have been drawn into the debate a great number of questions that branch off from this central one—the question, for example, of small and large notes, that of the check system, and others. That is perhaps not strictly the right thing, but it is unavoidable, and I call attention to it in order to justify myself for making a slight excursion from the mere direct answering of the question.

Now, as for the question of small and large bank notes, it seems to me in the first place that the expression needs a certain correction. The fact that according to the bank law of 1875 the Reichsbank could issue notes only of the value of 100 marks or more makes it historically clear why from this time on all notes of smaller denominations that were afterwards permitted were called “small bank notes.” A “small” bank note is a term that properly applies to a 20-mark note, but not to a 50-mark note. Fifty marks, even in our present economic condition, is no small sum; it belongs rather with the 100-mark note. I think it would have been better if in 1875 the minimum had not been fixed at as high a figure as 100 marks; and we are certainly justified now, after the experience we have had, in fixing the limit at 50 marks. It was through the specifically doctrinaire views of a number of fanatical theorists, and through the influence of men like Prince-Smith,

O. Michaelis, and others in Parliament, that so great a prejudice was created at that time against the so-called small bank notes. Since the preceding development of the German bank-note system in the fifties, sixties, and seventies had been in many respects of such an objectionable character, and since, besides the small state paper money, there had been issued a large quantity of small notes at denominations as low as a few gulden or thaler, a reaction was set up, and people went too far in their opposition to the small bank notes. To-day the men who at that time represented views of this nature—in general, free-trade views—do not go so far; to-day in allied circles—allied by common views on economics and on economic policy—there seems to be actually a preference for small bank notes. It is now thought that the issue of small bank notes induces the flow of a corresponding amount of cash, and especially of gold, into the central bank. To a certain extent this may be true; but, as I have recently observed, I doubt whether it is true for all cases. The result may just as well be that there is a smaller need of cash for circulation in Germany, and that consequently more gold money is available for outflow into other countries, and more gold is available for use in the gold industry. The experience we have had so far, to which reference has been made several times to-day, and the valuable communications that have been made to us by the Reichsbank president, are not to be looked upon just yet, I think, as sufficiently conclusive evidence. In the first place, the time covered by our experience is too short; and in the second place other circumstances also affect the movement of the gold supply and of the

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various denominations of bank notes. Taking into consideration all our previous experience, we can find many historical grounds for the conclusion that the smaller the bank notes the longer they are kept in circulation before coming back to the bank, and the larger the bank notes the shorter is the period of circulation and the sooner they come back. For the Bank of England this was accurately worked out in former times, and this is easy to do in consequence of the well-known rule of that bank that every incoming note shall be taken up and a new one issued in its place. But it follows also from other observations which can not be called in question. The large notes—this is best shown in the case of the enormous English £1,000 (20,000-mark) notes—come into business use only at times of extensive speculation, of favorable conjunctures; for a great many business circles of moderate or of small resources they are not available, and they are therefore gradually exchanged for smaller notes. From this fact the English money, credit, and banking world has drawn what seems to me the right conclusion. It is a conclusion drawn not only by the pure theorists, but also by the eminent practical banking men—and England rejoices in the possession of a great number of remarkably able practical experts on money, credit, and banking, who have become known also through publications on the subject. The conclusion arrived at is that small bank notes, because they are kept longer in circulation, are more like mere paper money; they create a more or less definite increase in the circulating medium as a whole, and thus prevent business from absorbing more gold. But I can not regard it as an un-

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mixed advantage that we should have less gold in circulation; for in that case we shall also have a smaller reserve in critical times. If the whole supply of gold in circulation is in general smaller (as we have lately had reason to suppose), then in critical times it will become still smaller, and at such times particularly this may make itself felt as a disadvantage. I wish that we had been satisfied with 50-mark notes, and that we had abolished the small imperial treasury notes, which, I repeat, I regard as being from every standpoint a very dangerous factor in our money, credit, and banking system; and I wish we had refused to issue 20-mark notes.

Now, the question arises: Are the small bank notes, in which term I shall include only the 20-mark notes—and also the imperial treasury notes of 10 and 5 marks—are these liked by the public or not? We have as yet no means of finally determining this question. Besides, these notes are valued differently in different business circles. I must subscribe to what Count Kanitz, Herr von Gamp, and Herr Raab have said. In the circles to which I count myself as belonging they are not liked, and can, I think, never be liked for any length of time. It has been said that habit will bring it about. But is it really desirable that we should accustom ourselves altogether to this sort of paper-money bits and bank-note bits? In the consideration of several of the questions, reference has often been made to the impression produced abroad by our regulations in regard to money matters; I feel as if this had been made too much of, but in this instance it certainly enters somewhat into the case. I have always thought it worthy of note from this point of view that the

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Englishman, the Frenchman, or the American who comes to our country sees so much gold used in our ordinary business alongside our notes—100-mark notes and larger denominations. This inevitably makes a good psychological impression upon the foreigner—even upon his economic ego. In my travels in Austria, Russia, and Italy—even recently, since the currency has been rehabilitated—I have always regarded it as a characteristic feature that so little gold is to be seen there that the whole gold standard appears to have its abode in the air. Now we are forsaking our old system and beginning to follow the example of Austria. Whether this is a good thing I leave you to decide. I can not muster any enthusiasm for the small notes.

Now, it is said that we must accustom ourselves to some other arrangement for carrying our money bags, our purses. But what does this involve? In the first place it involves for the great mass of the population tasks that are by no means light, since a man would have to carry a pocketbook as well as a purse, or else a combination of the two. But it involves something else besides. Consider for a moment the ladies in our social circles. They never have a sensible pocket in their clothes. [Very true.] It is all of a piece with their senseless dress contrivances in general. [Laughter.] When I see women on Leipzigstrasse carrying their portemonnaies in their hands, I am sometimes tempted to snatch them because it is so absolutely silly, and because it flies in the face of the words of the Bible—"Lead us not into temptation." I can readily imagine, when these young ladies go swinging along with their hand bags in which they keep their portemonnaies,

that a great temptation is put before the poor urchin who comes along and snatches it from her. [Very true.] And now it is proposed that an extra pocketbook be added for paper money. Pray don't forget that in all these money matters we think a great deal of certain outward conveniences, and gold and silver coins are by far the most convenient for small amounts. They are also cleaner than paper money. Our 20-mark notes are already shabby, and what will they look like a few years hence? We can tell that from the 5-mark note. So there are aesthetic considerations that also play an important part in this matter. We must remember that people who get paper money stick it straight into their pockets, which are often dirty, or into a dirty pocketbook.

It is an exaggeration to say that we must so reconstruct our currency system as to turn all our cash into money-capital. I express the thing in this way: Turn consumers' money into producers' money and capital. This holds good for commerce and for large business; but it is not true of small business; small business should be accustomed to hard money. We are doing this already in the case of silver money. All the more necessary is it, of course, for us to have the certainty that the silver money can be redeemed in gold.

What will happen, then, in the case of a great panic? Shall we not find that this small paper money is the first to be depreciated and to come to the treasury? It has already been remarked in the course of our discussion that in 1866 the Prussian treasury notes very soon fell below par in the west. But if this happens, there arises from it a further disadvantage; it is again the lower

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classes that are most affected, since speculators soon spring up who will accept the paper money only at a discount; there is, therefore, danger of exploitation. This is a decisive consideration in determining me to warn you against too great an increase in the number of these small notes.

But I repeat that all I have said refers not to the 50-mark notes, which we can safely use just like 100-mark notes, but only to the small notes—the 20-mark notes and the treasury notes.

I think, then, that it would be well for us to urge the Reichsbank, not by proposing any legislative measure, but by our counsel, to be for the present cautious in the matter of increasing the number of 20-mark notes (especially so long as we still have these unfortunate small treasury notes), and to keep within a certain not too high maximum. We have precedents for this in legislation. When the right of note-issue of the Prussian Bank was extended and in 1856 the Prussian treasury notes were reduced by one-half, the Prussian Bank was allowed to issue 10-thaler notes, but not in excess of 10,000,000 thalers in all. I think that in this case, too, a limitation of this sort would be in order.

For the rest I refer to the experience we had under the silver standard. You may, of course, say that that does not quite apply to the gold standard. But the two things are not so absolutely different. The representatives of the German free-trade school especially, both the theorists and the practical business men, were at that time, as I have already observed, strenuously opposed to the small paper money; they maintained that

through this small paper money, particularly through the increase in small notes between 1850 and 1870, the silver money had been driven too much out of circulation. This had not taken place to the extent supposed; but we had certainly been prevented from meeting our need of currency by means of actual silver money obtained through an appropriate increase in the amount of silver (of domestic production and of foreign importation) that was coined. I urge this consideration as appropriate to the present case also. If we do not increase this paper money, a need of gold for domestic circulation will arise, and we shall thus have a reserve in critical times.

I can pass much more quickly over the other points. The increase and development of the check system I regard—apart from one important reservation—with pleasure; and with still greater pleasure do I observe the clearing system, as it is represented by the transfer system of the Reichsbank and of the Reichsbank's clearing offices. In this we have the most magnificent credit and money system that the world has ever seen. But in relation to the check business two doubts arise in my mind. One of these doubts concerns the social and economic classes, to which people like us belong—that is, officials, scholars, professors, etc., and men of the so-called free callings. We are now told you should, so far as possible, put your salaries into a bank. I am doing that already myself. That presupposes one's entering into an arrangement with a bank. But can one always manage that? Can I ask a bank to take the little mite of salary I receive, even on occasion to pay interest—more or less high—upon it, and to pay it out

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to me again little by little during the quarter, as generally has to be done in the case of salaried men? The bank goes to a great deal of trouble over it—writing, making out accounts, etc.; it may well expect me in return at least to bring it other business.

A VOICE. No; the banks do it anyway.

Doctor WAGNER. Yes, I know they all do it anyway. I have an account of my own at a bank in this city. But can I demand that a bank go to the trouble of so much writing and so many small payments, if I have no other business to transact with it? One actually feels obliged, therefore, to carry on other business with the bank, to make investments in stock, or perhaps even to go into stock-exchange speculations. This danger is to be taken into consideration. Persons belonging to certain classes, therefore, such as the ones I have mentioned, must ask themselves whether they would be right in entering into this relation with the banks.

Now I wish to consider another point which, oddly enough, has not yet come up in our discussions. Can we really say that we must wish the check system to take the place everywhere of cash transactions in bank notes and coin? Surely this can only be true in reference to transactions of a certain magnitude. Small checks do more harm than good, and they are a nuisance to business. Within the short time that this new development has been going on, I have found from my own observation, and I have also heard from tradespeople—for example, from booksellers—that checks are often drawn for just a few marks. And for this people are burdened with a great deal of drudgery and unproductive work. This is the case with a great many

small tradespeople, as Herr Singer has justly observed. When a seller of coal, or of other household goods, comes to me with a bill, he takes the check I give him as a matter of course, and is glad that at least he is getting something on the spot (such, sad to say, is often the attitude of the seller to the buyer in these days); he wants to be obliging; but he is inwardly cursing the check. If, for example, he comes to me on Saturday, he can not cash the check until Monday morning. In these business circles there is already a good deal of not unjustifiable discontent over the check. Would it not be possible to make some such regulation as this (not immediately through legal regulation, but through the banks), that checks for less than a certain amount—say, 10 or 20 marks, or even 50 or 100 marks—shall not be accepted at all? There is no need of very small checks; they merely give trouble to the parties concerned. If we were to proceed in the way I have indicated, the justifiable check business would be developed in a much sounder fashion.

As for the other points, they are chiefly questions of practical detail, such as the question of raising the deposit minimum. I have no opinion in the matter. Only there is one point that I should like to urge. Where the Reichsbank and most of the other banks are concerned, I think the principle must hold that there shall be the greatest possible equality between service and compensation. I think that so far as possible the depositors should pay for the advantages that accrue to them. I will explain this by an example. Let us suppose that the deposit minimum is so increased that the profits of a certain joint-stock company are diminished by one-tenth of 1 per cent,

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and correspondingly the dividends of the Reichsbank are increased by one-tenth of 1 per cent. This is 180,000 marks. Of these 180,000 marks about one-half—that is, 90,000 marks—accrues to the benefit of the government. These are all small items, but still they play their part. The more profit the Reichsbank makes, the more goes to the government, too, and we certainly have use for it.

Upon the question whether the Reichsbank should buy checks I do not venture to pass judgment.

Now, one little final word on the question of the taking of interest-bearing deposits by the Reichsbank. I see that opinion is quite preponderantly opposed to it. It would not be necessary in the first instance to make any legislative change. According to the bank act and the statute of 1875, the Reichsbank has the right to receive interest-bearing deposits up to a limit which is at present 250,000,000 marks; thus far it has not done so. But it will undoubtedly be concluded from our proceedings that we advise it not to do so. I believe it would be more proper to discuss this under question VI, and if we treat that question I wish to come back to it. At present I will make only one remark. In recent years any person who was an official, a scholar, a writer, or the like—I mean people who belong to the miserably situated middle class—and who wished to make an investment, could hardly be encouraged to buy the constantly falling debentures, consols, and similar papers; he needed, at least for a few years, a temporary investment in a bank as safe as possible. It is true that our joint-stock banks in general are beyond all question in this regard. Nevertheless, these people of whom I have

been speaking say to themselves: "If we give our money to a bank of this kind, it employs the money directly or indirectly in its stock, flotation, promotion, and stock-exchange business; and probably the bank also expects us to do other business with it besides, and that, too, is objectionable." Now, whether the Reichsbank should accept such deposits I will not discuss; perhaps it would be better to have for this purpose an imperial deposit bank. One could deal with such a bank without hesitation, because in depositing money on interest with it for a considerable time no risk would be run of losses through declines in market price, as is the case with investments even in the best papers carrying a fixed rate of interest. So here we see that the interests of certain sections of society are involved, which deserve consideration.

SEVERAL VOICES: Savings banks!

Doctor WAGNER: No; the savings banks can not suffice for this purpose; and, besides, their management is far too rigid. My particular object is to keep the official class away from stock-exchange speculation in any shape or form. Accordingly, if the Reichsbank does not establish a regular business in interest-bearing deposits, yet the question has often been raised whether we should not institute alongside of the Reichsbank a great public imperial deposit bank. Now, it has been justly pointed out in this connection that we have in the *Seehandlung* and in analogous institutions of other German states, establishments suited to this purpose. But would it not be right also to have an imperial institution for this object? Looking at the matter from this point of view, I can not regard the

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question of interest-bearing deposits as settled so completely in the negative as most of the gentlemen who have spoken here have done.

The CHAIRMAN. Gentlemen, I think I may now safely assume that we are sure not to finish the discussion to-day. We shall therefore be obliged to continue it on Monday at 10 o'clock. But I will ask those who can not be present on Monday to announce the fact now, so that they may give us their views on Question V to-day:

Herr Doctor Weber on Question V.

Doctor WEBER. Gentlemen, the question whether it is advisable that the demands for credit in business be limited, I should answer in the negative. The president—and this appears also in Herr Fastenau's synopsis—referred to the fact that from 1906 on, and again lately through another order, the Reichsbank has declared that extension bills and finance bills must disappear from its portfolio. Emphasis was also on an earlier occasion laid on the fact that the Reichsbank has always been in the position of being able to refuse in good time to fulfill illegitimate business demands. But I should consider the limitation of legitimate demands to be a very dangerous thing, since obviously it is the function of the Reichsbank not merely to support the legitimate demands of business, but even to guide them into proper channels.

As to the separate points grouped under A in Question V, concerning measures by which the quarterly need of money, for example, might be distributed through the quarter, I wish to express the opinion that it will be very difficult to change the rooted customs that prevail in this matter. The public and the business world are so thor-

oughly accustomed, on the one hand, to paying mortgage interest, for example, on certain fixed dates, and, on the other hand, to collecting rents for this purpose on the same dates, that it would be extremely difficult to bring about a different arrangement in this matter.

As for the shifting of the time at which interest on loans falls due, this requirement has already been fulfilled in many instances. There are already cases in which interest falls due on February 1, March 1, etc.; but even in this matter the public—I know this from my own experience—decidedly prefers in the purchase of bonds, as far as possible, to get those in which the interest is payable on the first of October, April, January, and July, so that a change in this matter will not be very easy to bring about; and moreover, I am doubtful whether it would have any great effect.

Mortgage payments are also to be considered, and a clearing house for mortgages, which has repeatedly played a part in these discussions, and the institution of which is certainly desirable; and it is also decidedly desirable—and the thing has been done in some instances—that all public authorities, not only those of the states, but also those of the municipalities, should pay the salaries of the individual officials through banks. And I should be glad if these payments were made not on the 1st or 31st of the month, but, so far as possible, as much as ten days before the end of the month.

Moreover, it has been pointed out in the proceedings of the experts that it might perhaps be possible to shift the days of payment at the bourses, the payments made at the last and middle of the month, to other days. I regard

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this as impossible. And I do not believe that there would be any great object in it, since payments of this kind, especially at the great bourses, are not made by way of cash payment but by balancing of accounts.

A great part has been played in our discussions by the question whether it is desirable that the rate of interest for loans on collateral should be raised by the Reichsbank, or that such loans should be otherwise made more expensive. I do not think that this is to be recommended, even if limited to those loans which are of a purely speculative nature. Against any increase of expensiveness, and especially against the last-named limited measure, there are very serious objections. Aside from the difficulty of recognizing purely speculative loans and distinguishing them from those of other kinds, we should not only find that money will become dearer, but should also go through the same experience that we had in the bourse law of 1896, that on the one hand foreigners would no longer do business of this kind through our bourses, and that on the other hand our own people, finding domestic bourse transactions made more expensive, would go abroad for these purposes because they could get what they want cheaper there. We must avoid everything that may have the effect of driving German capital abroad.

So far as regards the credit needs of the Imperial Government and the question whether the imperial treasury needs strengthening, we are all agreed that it is very much to be wished that the imperial treasury should not have to apply to the Reichsbank for every advance that it may need, but that it should have at its disposal re-

sources of its own for such purposes. In the discussion of the supplementary coinage act last spring it was pointed out on the part of the Government that an increase of the silver quota by five marks per head of the population would help to place at the disposal of the treasury means of meeting current expenses through the profit on the coinage of this silver. This to be sure is possible, but I doubt whether it would have any lasting effect. What we must regard as of greatest importance is to put through as soon as possible the financial reform which is now in prospect, and to place the management of our imperial finances upon a secure and solid footing.

Now for the question of treasury bills. I consider that in a certain sense the imperial treasury bills are a very desirable means of influencing the rate of private discount through their being put upon the bourse. If the rate of private discount is too far below the rate of discount at the Reichsbank, then putting the treasury bills on the market is a means of bringing about a tightening of the rate of private discount. But we must not disguise from ourselves the fact that in issuing these treasury bills the Government takes no account of whether the time of doing so is convenient for the Reichsbank or not. It is often done at a time when the Reichsbank is already greatly overburdened with the requirements of business. Several experts have proposed that at certain times the Government should turn not to the Reichsbank, but directly to the people. It was also suggested that perhaps foreign countries would be suitable purchasers of these treasury bills. I do not know how far the Government is in a position to consider these proposals. But one thing I

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should like to point out. It would perhaps be feasible for the Reichsbank, with the help of its main offices, its ordinary offices, and its branch offices, to make the treasury bills that it takes over accessible to the public at large. I know that in the provinces a demand for treasury bills often arises, and that at such times it is extremely difficult for us outsiders to obtain them without some agency in Berlin.

I wish also to raise the question whether it would not be possible to have the amount of the imperial treasury bills stated as a separate item in the Reichsbank statements. I do not know whether the Reichsbank administration is in a position to do this, or whether the matter has been already considered.

The CHAIRMAN. Herr Direktor Doctor Ströll on Question V.

Doctor STRÖLL. Gentlemen, with reference to the restriction of the demands upon the Reichsbank for credit, I have already expressed my opinion that these two functions of the Reichsbank are equally important and equally valuable—the function, on the one hand, of being the regulator of the monetary circulation, and that, on the other hand, of being the paramount credit institution of the Empire. Like Doctor Weber, I see no reason for our restricting the just demands of credit. That is the obverse side of the privileges of the Reichsbank; where there are rights, there are also duties. It is the right of every German to turn to the Reichsbank, and in doing this he is not committing an assault, or even doing anything unreasonable. The Reichsbank is not a charitable institution, distributing favors right and left; it is an institu-

tion for general use, and in the future this usefulness will become more and more clearly marked. Concerning the question of whether certain transactions are suited to the Reichsbank or not, some misunderstandings may have arisen in outside quarters. But I live in the midst of the business world, and I can assure you that the purposes that underlie the Reichsbank president's latest order are already being fulfilled, and that the abrogation and purification of such transactions as are not suitable for the Reichsbank is in full swing, and indeed is carried on more energetically than many would like to have it. A wholesome restriction of credit where restriction was necessary has been the result. More than this one can not ask without injury to credit in general and to industrial life.

The efforts to ease up the quarterly periods should certainly meet with nothing but approval. But in so far as changes in business habits and customs are involved, it will take a long time to effect this reform. Then, too, if the position of the Reichsbank is considerably strengthened by an increase of the contingent, the difficult quarterly periods will be more easily managed, especially if, through the different means that have been proposed, more gold can be made to flow into the Reichsbank.

I do not think, therefore, that there is any urgent occasion for increasing the expense of borrowing on collateral at the quarterly periods. Who should undertake to lend on collateral, if not the Reichsbank? Why is it proposed that we should penalize such short-time loans, which are for the most part covered by the very best German securities? What would other countries think if we were to penalize in some measure the borrowing of money on the

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pledge of securities of our imperial and state governments? The position of the Reichsbank is strong enough for it to be able to withstand the pressure caused by the varying waves of business activity.

As for the imperial treasury bills and the discounting of these at the Reichsbank, it is certainly true that occasionally, in times of stress, business interests have found it to their disadvantage to have the state enter into competition with them. Now, just here I have noticed many gaps in the arguments of the experts at their hearings. There has been complete failure to take into account the importance, as an element in national economics, of the discounting of imperial treasury bills by the Reichsbank. Doctor Weber has already referred to the matter. Not only does the Reichsbank discount the imperial treasury bills, but it also rediscounts them at the proper time, and distributes among those who can best support it the burden of what it suffers through granting credit to the Government. This is extremely important. At any rate, it is the only occasion on which the Reichsbank gets to have a feeling for the open money market and a control over it, and on which it appears as taker, not as giver, of credit.

For the rest, I think that a certain circumstance—in the first instance, to be sure, relating to Prussia only—will bring about the result that fewer imperial treasury bills will come up in the Reichsbank. The attempt has been made to require the Prussian savings banks by law to invest a certain proportion of their deposits in state paper. So far as I have heard, the attempt has not yet succeeded. But the Prussian government has now tried through administrative action to influence the savings banks to do

this, in order to produce an effect upon the market for loans. Now, if the Prussian savings banks step in as purchasers of state securities more frequently than before, then these treasury bills have a very particular importance for them. For much money has been lost on the ordinary German rentes. Each one of us has already lost his 12 or 15 per cent on whatever German state paper he may have had. At first the 4 per cent paper was bought at 106; then it was converted to 3½ per cent—we had to put up with that—and to-day it stands at 91. If, then, the savings banks are required by an administrative measure to invest in state paper, they will have a very decided preference for these treasury bills; for they may lose a trifle in the market value of these, but not a sum such as is sometimes lost on the fixed rentes of the Empire or of the States. I think, therefore, that in future the Reichsbank will be less burdened with demands on the part of the Imperial Government, and that the treasury bills will betake themselves elsewhere. Finally, we have the comfortable assurance that when the reform of our imperial finance is completed the Government's need of loans will be diminished. Of course the treasury bills will not altogether disappear. This is shown by the example of other nations, which have very good financial arrangements and are yet occasionally obliged to put treasury bills upon the market and to have them discounted at their central bank.

The CHAIRMAN. I will ask Herr Kommerzienrat Fischer to speak on Question V.

Mr. FISCHER. The treatment that has been given to Question V by a great many experts has been extremely difficult for me to follow. One of the ablest of them has

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said that the situation in the Reichsbank last winter would not have been nearly so bad, if, as a general thing, the demands made from one year's end to another upon the Reichsbank had been less than they were by 100,000,000 or 200,000,000 marks. And a great many gentlemen have expressed the opinion that the Reichsbank should never try to find business, but should get out of the way of it as much as possible, and that it should serve only as a last reserve or last retreat for the great banks—in a word, that the Reichsbank should be the bank of the banks, and not a bank for the general public. No syllable of reproach has been spoken by any one against the Reichsbank, and I should be very grateful if I, and probably many others, might have our minds set at rest by a public or a private statement of the attitude of the Reichsbank toward the developments that are to come about in the next ten years. I should like to know, that is, whether there is to be an attempt to eliminate, as far as possible, business with the general public and with the larger organizations of manufactures and trade, or what are the tendencies that are to be operative in the future. We in south Germany have found, during the whole time of the Reichsbank's activity there, that business with the Reichsbank is not particularly cheap—that perfectly sound transactions can be made much more profitably with other bankers. But we have been influenced in south Germany by the consideration that in critical times, and in the most critical times, when other bankers may fail, the Reichsbank is pretty sure not to fail, and that at such times it will of course do business only with those who have already done business with it at other times. I think that this prin-

ciple is right and should still be maintained. But I should very much like to hear some expression of opinion in the matter.

To the question of what measures can be taken to ease up the quarterly periods, I reply that it would really be possible to bring about at least some improvement in the matter. In Wurttemberg, for example, we have distributed the dates for the payment of coupons among the first days of all the months, instead of having them crowded into the first days of the quarters. By this means, and, further, by the possibility of redemption of coupons as much as two weeks before the day on which they fall due, the question of coupons is no longer an element in the difficulties of the quarterly period. I believe, further, that it would be possible to pay all salaries in the middle of every month, instead of the first day of each quarter. That mortgage payments can in the main also be shifted I do not believe.

I should certainly not recommend an increase in the cost of borrowing on collateral. On the contrary, I should be in favor of having loans on collateral no more expensive than discounting of bills, for I regard loans on collateral as always safer than bills. Nor do I understand why the Reichsbank should not limit the duration of its loans to three months as a maximum. If the rate of interest could be made equal to the rate of discount, people would be delighted. But if that should prove to be impossible, I should like to see at least the former arrangement in force—that only one-half per cent more than the discount rate be charged upon loans made on the security of paper of the Empire or of the States; that is, one-half per cent

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less than is charged when the security is in the shape of mortgage debentures, etc. This arrangement would contribute very much toward the favor with which these imperial and state loans are regarded.

For the rest, I agree with what the other speakers have said about the demands for credit made by the Government, etc.

The CHAIRMAN. Gentlemen, I for my part can only ask Herr Kommerzienrat Fischer to quiet the doubts of those who are afraid that the Reichsbank intends, as a matter of principle, to restrict its credit business in the next ten years, and to say to them that what the Reichsbank has in view is only a securing of its solvency; that therefore it desires to have only such bills as it may use as legal security for its notes, but that it has no desire to bring about in any way a systematic limitation of the business of dealing in credits.

Doctor SCHMIDT. On Question V, I have only a few words to say, for I fully and entirely agree with the gentlemen who have spoken before me. His excellency the chairman has already said that the Reichsbank does not think of such a thing as limiting the legitimate credit demands of its customers, but that it intends to pursue in the future the same policy as it has pursued in the past; only illegitimate demands, finance bills, etc., shall as far as possible be excluded from discounting. I think it is also desirable that legitimate credits in the sense understood by Herr Kommerzienrat Fischer be given somewhat more favorable treatment. If it is possible, and consistent with the other principles involved, advances made upon loans of the Empire and the separate States should not be charged

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at a rate 1 per cent higher than the rate of bill discount, but either at the bill-discount rate or at most one-half per cent higher; for loans based on foreign state paper and on goods the higher rate might be allowed to stand.

It is plainly desirable to make use of all possible means to diminish the great tension at the end of every quarter. Whether the means proposed will have the desired result, experience must show. However, I do not regard it as so extremely regrettable, and as justifying a great state of nervousness, if at these four periods the demand of trade for circulating medium is particularly great, especially if it is not directed expressly upon the stock of gold. The principal takers of gold at the quarterly periods are the state treasuries, which draw these large quantities from the Reichsbank for salary payments, and possibly the drawing out of gold might be diminished by making more payments in small notes; of course I do not speak of the entire salary of a commanding general, which has been mentioned. The plan of requiring loans on collateral at the ends of the quarters to be taken for a longer time I do not regard as very effective. It might perhaps somewhat diminish the demands for loans on collateral at these times, but the return current would also be correspondingly retarded; for if the minimum period were made twenty days instead of ten, the money would not flow back earlier than that, even if it was no longer needed. Accordingly, such a measure would in my judgment more probably accentuate the tension at the critical period than bring about an improvement of the present condition, for it is certainly desirable that the return current should set in as soon as possible.

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The question of treasury bills is an extremely serious one, and at times of great strain of credits the difficulty of the situation has been decidedly increased by the circumstance that by means of these treasury bills resources were drawn away from the Reichsbank which, for one reason or another, it had expected to retain in its portfolio and not to be compelled to place upon the market. The sending of treasury bills to the Reichsbank, if they stay in the Reichsbank, is essentially exactly the same as though the treasury satisfied its needs directly by the printing of paper money. It prints treasury bills, gives them to the Reichsbank, and in their place the Reichsbank issues paper money, bank notes, that are covered to the extent of at least one-third. If a great quantity of such treasury bills flows into the Reichsbank, we get still nearer to the minimum of the gold cover. Hence it is to be hoped that the reform of the imperial financial system will put an end to this shocking lack of money on the part of the Government, so that the Government may no longer be in the position of having deficits all the time and being compelled to make short-term debts, but shall itself obtain the funds necessary for its expenses. For this purpose, too, the profits on the new coinages of silver should be utilized.

It is true that in the treasury bills the Reichsbank has a convenient means of obviating the great difference between the rate of private bank discount and the rate of Reichsbank discount when this difference reaches a certain point; and, since bills can not be rediscounted out of the portfolio, this is the only means the Reichsbank has of doing so, and it is a very useful means. In our discussion

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about foreign bills it was said that if we wish to prevent the outflow of gold by tightening the discount screw it is not the official rate of discount by which we should be governed, but the private rate of discount. But through the giving out of treasury bills the Reichsbank can always make the private rate of discount approach the rate at the Reichsbank. Still, we may hope that the Reichsbank will not in future have such an excessively large quantity of treasury bills.

The CHAIRMAN. I will now ask Director Schinkel to take the floor, first on Question V, and then on Question IV.

Mr. SCHINCKEL. Gentlemen, I need say no more about Question V, A (as to whether a restriction of the credit demands of general business is desirable), now that our honored chairman has made such a very satisfactory declaration—one that has given me in particular a great deal of pleasure.

As for the quarterly periods, I look upon them as, on the one hand, not so terribly dangerous, and, on the other hand, unavoidable. Certainly we should do all that lies in our power to ease the tension of the quarterly periods. This is already being done by the state authorities, since they are almost too energetic about bringing coupons to be redeemed before the quarterly periods arrive. In a certain way this makes the quarterly periods easier to get through with; in another way it demoralizes business if people can take into their possession on the 20th, the 16th, or the 10th of the month that which they are not supposed to receive until the 31st. For all that, the quarterly periods are in this way relieved. The banks of issue should also

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try to make things easier by fixing the time for paying coupons not always at the first of the quarter, but also at the first and at the middle of the other months; and this is just what they are doing. But when these measures are taken, we shall have exhausted pretty much all the possible and conceivable ways of relieving the stress of the quarterly periods.

I do not in the least see why borrowing money on security should be made more expensive. A loan on security, and especially a short loan, is in itself a perfectly safe transaction for the Reichsbank; and for those who accept the loan it is not in the least a discreditable transaction, but one that is absolutely legitimate. I think therefore that an increase of the number of interest days, and a consequent increase of the expense, is uncalled for.

On the other hand, I also fail to understand why the rate of interest on loans on security should be lowered. For reasons based on banking principles a certain degree of difference between this rate and the rate of bill discount is always desirable.

Now, as for the credit-demands of the Imperial Government, I am opposed on general principles to imperial loans, and I am consequently also opposed, in some measure, to all imperial treasury bills. Besides, I think that through the issue of treasury bills the Government has quite unduly lowered the condition of the Reichsbank. I recognize, however, the fact that imperial treasury bills can not be altogether avoided. It may even be that they are useful to the Reichsbank as a means of influencing the rate of private discount. But for this purpose no such great quantities were needed as the Reichsbank has been

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compelled to take into its portfolio. I expect the Government to create for itself a working fund which shall render the issue of such large quantities of treasury bills unnecessary.

This is all I have to say on Question V, and with the permission of the chairman I should like to return just for a moment to Question IV. I fear that the desire to express myself briefly carried me rather too quickly past the subject of the small bank notes and the check. The remarks of Herr Geheimrat Wagner have roused in me a great deal of sympathetic feeling. Even this morning I did not give myself out as an advocate of an increase in the number of small bank notes. I, too, think that the 50-mark notes can not be regarded as among the small notes. The plan of forcing upon trade more 20-mark notes than there is demand for, I consider ill-advised and dangerous. The small bank notes will come back to the Reichsbank on the first of the month, especially in critical times. The point to be kept in mind, I think, is that the bank notes—it makes no difference whether they are large or small—must always and everywhere be payable in gold; so long as this principle is maintained, it does not very much matter about the precise quantity that is issued.

As for the check, I expressed this morning a certain disapproval of it. When the check loses the character of a means of payment, and becomes part of the currency (and this is what has been happening, unfortunately, in consequence of the propaganda for the check, though the propaganda had an entirely different object), when it goes into the bank, as it often does, with 20 or 30 signa-

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tures, and after a far too long period of circulation, then the check is a nuisance. The check will not fulfill its purpose—which is to diminish the circulation of cash—until it becomes customary not to cash it at the cashier's desk, but to credit it on an account. Only through a further development of the deposit-and-transfer business will the check be freed from the inconvenience which now attaches to it.

Now, one more word to quiet the doubts of Herr Geheimrat Wagner. One of the advantages of this investigation is that we sit for once face to face with each other and can talk to each other in person. For one thing, I should be very glad, indeed, if I might persuade Herr Geheimrat Wagner and those of his class to abandon the idea that the money that is deposited in the great banks is used only for purposes of speculation on the bourse. It is of course difficult to remove an impression when it has once obtained lodgment in the mind. Then, again, I wish to say that no one need bother to go to a bank that will start an account with him on such favorable terms (through pressure of competition) that he is almost uncomfortable and feels that he must recompense the bank by doing other business with it. I can say from my own personal experience that a first-class bank never thinks of such a thing. Certainly, when the banks stop to consider the matter, they must be really ashamed of granting such favorable terms. I think that neither the great banks nor the Reichsbank ought to give interest on deposits, for the equivalent return consists in the trouble and work that is involved in the deposit business, and the giving of interest is a downright abuse. But no respect-

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able bank will for this reason ask, even when it sends out its prospectuses to its customers, that securities be bought, or that any such transaction be made. I invite Herr Geheimrat Wagner to come to Hamburg, not for the sake of prying into the secrets of the deposit business—though there would be no harm in that either—but that he may find out for himself how a great deposit-and-transfer business is really carried on by a bank. The banks here are still beginners in the matter. At the Hamburg banks there is no personal relation with the depositors; we do not even know them by sight; we only know the signatures, and we take care that accounts are not overdrawn. We do not give any regular interest, as is the custom here. Our returns come from having in our hands all the year 20,000,000 marks of deposits, with the interest of which we pay our whole force and also meet the whole of the risk that undoubtedly attaches to the deposit business. But that very great advantages secured by a bank to its customers should bind the customers, even by a merely moral obligation, to become thenceforth bank and bourse speculators—this is a view that I beg Herr Professor Wagner will oppose with all his might whenever he comes across it; for it would be a pity if the extension of the deposit-and-transfer system in Germany were to suffer because of such a mistaken idea.

The CHAIRMAN. We now return to Question IV. Professor Lexis has the floor.

Doctor LEXIS: Gentlemen, permit me to go back to a point that Doctor Schmidt made this morning. He observed that the number of crowns (*Kronen*) had probably changed

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very little; that there are now probably nearly as many crowns as were originally coined. It is not likely that many crowns have been melted, and there must have been few exported, since no business transaction can be effected with them. They can hardly have been exported as bullion, since they get more wear and tear than the double-crowns. It is therefore very probable that there are still something like 700,000,000 marks' worth of crowns. Now, on this assumption one could devise a method of valuation which, while it would not, to be sure, give an accurate result, would at least be comparatively easy to put through. What is the proportion now between double-crowns and crowns in such collections of cash as are supplied directly from the channels of trade? This is the thing to be determined. And this is comparatively easy to determine. So far as I know, crowns and double-crowns are always separately sorted, and I think this is probably the case in the Reichsbank, too. The proportion of crowns to double-crowns in the Reichsbank will probably turn out to be different from the proportion obtaining in ordinary business. But that makes no difference. If we simply assume that the whole amount of crowns is 700,000,000 marks, and if the Reichsbank has 200,000,000 or 300,000,000 marks of them, we shall know from that about how many there are outside the Reichsbank. Thus, we might make out a double set of statistics; we could determine on the one hand the proportion of crowns to double-crowns in the stock of cash in the Reichsbank; and we could determine on the other hand, by a wider survey—say, of the great banks—what proportion obtains between the two coins in the rest of the business world.

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A number of great banks would probably agree to let this proportion be determined on certain fixed days. We could proceed confidently on the principle that there are 700,000,000 marks in crowns (perhaps with a deduction of 5 per cent for loss in one way or another), and we could then determine from the data referred to the sum total of double-crowns. This is a suggestion that may fall on fertile ground. I will not pursue it further.

As for the particular question that lies before us, I have no instinctive liking for small notes. First, on aesthetic grounds, which have already been advanced, and which might in some measure be looked after, especially by having the 20-mark notes renewed as often as possible; further, for the reason that I have already explained—that these notes have often been forced into use by a certain amount of pressure. I adduced examples to prove this statement. The less pressure one brings to bear at first upon the public in a matter of this kind, the less need will there be of pressure later. The fact is, the public should become gradually accustomed to these notes. And I thoroughly agree with my colleague Professor Wagner in questioning the advisability of putting large sums in small notes into circulation. But the arguments in favor of the small notes were also advanced yesterday. At critical times small notes may be absolutely necessary, and on this account it will be a good thing for the public to be accustomed to them beforehand. But I should favor an increase in the present quantity only in so far as the public is willing to take the notes; if the public will take them, the amount may be raised even beyond 300 million. What I chiefly

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have in mind is the 20-mark notes; the 50-mark notes are not properly to be classed with the small notes.

But I have still another reason for my practical decision in favor of the small notes, though this is a reason that I have on another occasion advanced as an argument against them. The small notes, and even the imperial treasury notes—much as these are hated, and little as I, for that matter, like them—serve in a measure to keep down the small check. The more bank notes and treasury notes we have of the value of twenty, ten, and five marks, the less of a chance small checks will have of making their way into use. Small checks are an evil; they are getting to be a very inconvenient part of the currency, more inconvenient than bank notes, and even more so than silver coins. For the shoemaker, for instance, it is a positive nuisance to be paid with a check for 16 or 18 marks for a pair of shoes. The man must skip off to a bank and get the check cashed; he does it, but it can not help being inconvenient. But even if he has an account at the bank, and himself pays the grocer, etc., with checks, that is to my mind a useless expenditure of trouble; it involves a great deal of writing that is not worth while. It would be much simpler for the man to receive small bank notes, and to use them again in paying his own bills.

But there is another point which I should like to call to your attention. It is in my judgment not desirable that the check business should extend further down than the middling business class. I should regard it as a very regrettable thing if it should be developed as it is in America, where even the laborers have their bank ac-

counts and are paid, and pay others, with checks. Nor should I be glad to see the small officials or pensioners, or persons having small fixed revenue, having a regular bank account and paying with checks. To these men of fixed income those considerations do not apply which weigh with the business depositors of the bank, who let their bank accounts stand even in critical times, because they are in need of the checking facilities. The men of small fixed incomes, the lesser head craftsmen, and the lesser officials close their accounts as soon as a crisis looms in sight. We have seen this happen in the worst degree in America. There the check system simply stopped of its own accord because the people of this class, who had hitherto paid with checks, became anxious, stormed the banks, and drew out their deposits. In this way the whole monetary circulation was for the time crippled. A thing like this may happen in England, too, at any time. Formerly, when one spoke of a run on the banks one meant a run to redeem bank notes. But in America there was nothing of this kind. The national banks were not overrun; they held their own much better than the trust, savings, and deposit banks; and, most important of all, the notes of the national banks were still treated like cash. The disagio in payments was confined to checks, and that was because the deposits had been withdrawn.

I think, therefore, that it is not desirable that the check and deposit system should be extended so widely among the people of small fixed incomes; in many respects I consider payments with notes to be preferable. On the other hand, I am altogether in favor of the utmost devel-

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opment and extension of the check system in its proper domain. I regard it as a very important means not only of strengthening the gold stock of the Reichsbank but also of facilitating in general the utilization of capital. For this is what it amounts to in the end—that at times when it is not needed by its owner the capital residing in the banks in the form of deposits can be utilized in another quarter to the fullest possible extent. To my mind this is the chief advantage, much more important than the mere economy of metallic currency; and so I fully agree with the gentlemen who have preceded me that an extension and increase of the check system is by all means to be desired, at least if, as I have suggested, it be restricted to business circles, including men of property who do business with the banks and also well-to-do officials, but excluding so far as possible the little people. Of course any check, as has often been said, fails to serve its purpose if it is not deposited so as to enter into the clearing and transfer system. The mere taking up of checks is no gain; on the contrary, it is an injury to the circulation.

As for the question of an increase of the minimum of noninterest-bearing deposits, I can not but regard this measure as pointless, or at any rate as not at all useful, at least with reference to the question at issue, for I do not think that the stock of gold of the bank would be in any way strengthened by an increase of the minimum of noninterest-bearing deposits. The first deposit, as well as any later increase of the minimum deposit, may be made in any one of a number of different ways—through depositing bank notes, through discounting of bills, or even

through loans on collateral. I do not see therefore how the stock of gold is to be strengthened by this measure.

Nor should I recommend the acceptance by the Reichsbank of interest-bearing deposits; it would be of no use except to very anxious people who are bent on securing the greatest possible safety for their deposits, and at the same time were not willing to go to the savings banks, where they would be sure of finding sufficient guaranty. Most of that part of the public which is well off, and even of that part which is not so well off, would still prefer the high rates of interest that can be drawn at other banks, even in times of money scarcity. Last year the provincial banks of the second order gave interest as high as $4\frac{1}{2}$ per cent in their current-account business on deposits that were payable on demand and that were therefore at all times at the disposal of the depositor.

The purchase of checks by the Reichsbank may be looked upon from different points of view. On the one hand, the circulation of checks might be facilitated thereby. Like one of the gentlemen who have already spoken, I regard that as an abuse. Checks are a means of payment, not currency; they ought to go as directly as possible—only through the bank as an intermediary—into the clearing house or the balancing office; they ought never to pass into circulation. In my judgment the ten days' delay allowed by the German imperial law is anyway too long. In England, so far as I know, there is no legal regulation of the matter; but custom has established that they should be turned in "in due time, in reasonable time;" in practice the customary interval covers, I believe, the third day. In so far, then,

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as the purchase of checks may facilitate the circulation of checks, I should regard this measure as ill-advised. On the other hand, another result of the measure would be, as Director Peter has already observed, that the period of the circulation of the check among the public would be shortened; the check would be withdrawn from circulation sooner. Thus there are two sides to the case. On the whole, however, I think it would be a good move, provided it were carried through in the way his excellency has proposed—with restriction of the purchase of checks to those persons who have deposit accounts with the Reichsbank.

Freiherr VON CETTO-REICHERTSHAUSEN. Gentlemen, I wish to express my opinion with regard to the issue of small bank notes from the standpoint of one who has in principle no liking for such a measure. It seems to me that a larger issue of small notes and a forced introduction of them into business would bring us close upon the danger of a paper-money system—a danger which in critical times could not be avoided. I can therefore easily sympathize, in principle, with the view of Herr Geheimrat Wagner. On the other hand, it must not be forgotten that the issue of small notes may be regarded as an important means of financial equipment. At any rate, I think the small notes are calculated to force gold out of circulation. As to whether they will in point of fact cause it to go into the Reichsbank, I am somewhat in doubt. It may be that they will cause gold to go, not to the Reichsbank, but to other banking institutions. At any rate, it is conceivable that the country's stock of gold will be concentrated more and more in the banks

and drawn more and more out of business use; that therefore a substitute for gold as currency will be found in small notes—a consummation which may, after all, appear desirable when we consider the excessive use of gold in payments of all kinds.

As for the safety of small notes, I have no doubt of it so far as normal times are concerned, or even exceptional times, since the small notes must always be covered, just as the notes of larger denominations must, and the obligation to redeem them in gold can not be put in question. Only I wish to observe that in my experience the circulation of small notes in country districts has hitherto made very little progress. For example, at the bank of which I have the honor to be president we have noticed that while small notes are accepted in payments, still at annuity periods, for example, they come into the bank in streams, so that we can infer that in the country districts there is a tendency to get rid of the small note, rather than to keep it in circulation. The reason is clear; I remarked yesterday that our people prefer hard money to bank notes. This is especially so in Germany, because we have not been long used to carrying on business with paper money. In Austria the case was and is different. In Italy, too, it is different; we have not yet adopted these customs. In Bavaria the smallest note in circulation was for a long time the 10-gulden note of the Hypotheken Fund Wechselbank. There were no notes of lower denomination in Bavaria. Now the 5-mark notes have been adopted, which, while they are available for business, have the disadvantage—partly because of their small size—that they soon become dilapidated, and

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reach a state (I know something about it from experience in checking up the bank's cash holdings) that must be described as anything but appetizing—it is positively disgusting.

There is no question but that in reference to the circumstances of the present time the deposit-and-transfer system is to be preferred to the check system, and should therefore be particularly fostered. On this point all the gentlemen who are present have expressed their agreement. I can, therefore, add my voice to the general dictum. On the other hand, I should regard the extension of the practice of taking interest-bearing deposits through the Reichsbank's adoption of it as a distinct encumbrance upon the Reichsbank. I can well believe that a sufficient reason for the Reichsbank's not having engaged in the business of taking interest-bearing deposits, although it was empowered to do so and could have done so long ago, is to be found in the fact that the mechanism of this business would have been a very great encumbrance upon its regular activity. I share on the whole the view expressed by Herr Peter that the Reichsbank would thus enter into a very unpleasant competition with the savings banks and cooperative banks. But how far the competition would make itself felt would depend upon how high a rate of interest was paid on deposits and upon the amount of the minimum deposit. These are, of course, two decisive factors.

I have now made the few remarks I wished to make on Question IV. I beg, Mr. Chairman, that you will permit me to pass on at once to Question V.

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On Question V I had been struck with the very thing that my honored countryman, Doctor Ströll, has said—that to diminish the use of the Reichsbank would be contrary to the idea of the Reichsbank's function. But the explanation of his excellency the president of the Reichsbank has rendered any such remark superfluous.

As for the shifting of the quarterly need of money, I should like to bring to your notice the fact that in the case of a great number of coupons—as with state coupons, with the coupons of the debentures of the mortgage banks, as also in the case of annuity payments, which play an important part in the matter—in all these cases the times for paying interest are not by any means regularly fixed at the quarter days. The coupons, like the annuity payments of many great mortgage banks, are some of them payable almost every month; so that this business can not, in my opinion, cause excessive demands to be made upon the Reichsbank through need of money at the quarterly periods. Another question is whether the collecting of coupons and salaries were to take place before or after the first day of the quarter. If it takes place before, even [*sic*] if only a short time before, very little change will be perceptible in the whole situation, since subsequently, and precisely in the first days of the quarter, more demands would be made upon the Reichsbank through the payment of coupons, salaries and wages. To fix the time of payment after the quarter-day would hardly be feasible. This would necessitate an indulgence on the part of the creditor which he could hardly, in ordinary circumstances, bring himself to exert. I must say, therefore, that I can not feel confident of great results from this measure.

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As for the business in loans on collateral, I think this is to be regarded as about coordinate with the bill business of the Reichsbank. I, too, think that borrowing on collateral should not be made more expensive. I consider it a perfectly legitimate business, and should be very sorry if it were made more expensive. I am just as strongly opposed to the idea of shortening^a the period, and to the idea that the rates of interest for loans should be raised at the quarterly periods. On the contrary, I am of the opinion that the loan business should be treated with no less favor than is shown to all the regular bill business.

Mr. ROLAND-LÜCKE. I believe I am the last person of all to speak on Question IV, and I shall therefore hardly be able to submit new matter for your consideration.

As for the issue already made of 50-mark and 20-mark Reichsbank notes, Herr Raab has shown us by the example drawn from the post-office that this issue was useful and was, in a way, necessary. If one were in need of arguments to prove that great economic ends in the matter of the movements of money could be attained in a desirable way by means of paper, then the reference to the large sums of money delivered every morning by the post would certainly have made it clear that this delivery might very properly be made in the shape of paper, especially since the paper would go back again to the post in the evening.

Now, as for the question of whether it is permissible and desirable to increase the number of 50-mark and 20 - mark notes in circulation (now amounting to 300,000,000 marks), my opinion coincides, so far as the

^aThe speaker doubtless meant lengthening, not shortening.—TRANSLATOR.

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50-mark notes are concerned, with that of some of the previous speakers; that is, in so far as there is clearly a genuine need in business for more 50-mark notes, I consider an increase of their quantity to be a safe move; I mean that I consider it unnecessary for the present to fix a maximum. As for the 20-mark notes, I imagine that, since in a time of economic slackness—or even, I may say, economic standstill—when there was little money in circulation, the need of a comparatively large quantity of 20-mark notes has made itself felt; I imagine, I say, that in a period of greater activity a greater need will arise in a legitimate way. Nevertheless I urgently advise that a limit be set. Director Schmidt has recommended that we withdraw from circulation as many 10-mark pieces as possible in order to strengthen the stock of gold of the Reichsbank, this recommendation being probably directed toward pointing out a way in which we should be justified in issuing a larger quantity of 20-mark notes. Well, gentlemen, I should recommend precisely the opposite course. Director Schmidt has very eloquently maintained that the 10-mark piece is not melted down for industrial use and that it has not shown itself to be subject to exportation. In other words, then, if we are looking for that gold piece which experience has proved to be suited for being kept in circulation in petty trade we have it in the 10-mark piece. I am perfectly cognizant of the argument based on the loss of weight which this gold piece undergoes through circulation. But if we accept the view that while it is not right from an economic standpoint to let too much gold circulate, at the same time it is well to keep a certain gold reserve among the public; if we

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accept this view, we ought not to withdraw from circulation the very gold piece that has proved itself best adapted to remain in circulation.

If, after observing for a sufficiently long period a situation unlike that of last year, we are convinced that business is in need of more 20-mark notes, very well, then, let us gradually meet this need as opportunity may arise. We can conceive of a great quantity of these 50-mark and 20-mark notes being used on occasion to form part of the cash which in any number of counting rooms, official as well as private, is kept more or less as a reserve fund and is never actually used. Our chairman, I believe, has referred to this in another connection. I think that if one were to go carefully over the country to see the various stocks of cash balances that are kept—we must not confine our attention to the great depositories—one would find among the cashiers and treasurers a great many prudent people who do not feel comfortable unless they have in their tills or safes a certain amount of money over and above that which enables them to meet even unusually large demands. This excess in the supply of money is, in my judgment, decidedly uncalled for, since it is of no use to anyone. It seems to me eminently desirable that in this excess, which has hitherto consisted of gold and large notes, we substitute for these in some measure 50-mark and 20-mark notes. Whether the really active circulation that is carried on by business will continue to hold 20-mark notes in large quantities is a question that can not, in my opinion, be decided until we have had a period of financial and business activity to

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contrast with the period we have just had and are still living in.

As for the extension of the deposit-and-transfer, check and clearing system, an effective effort in this direction would in my judgment be an excellent means of preventing an excessive circulation of money among the public. In dealing with this question, however, I beg you to consider with reference to the many complaints that have been made here on one aspect or another of the matter, that until about a year ago the impetus for this movement was given practically by the banks alone, that there was only a very moderate support of it elsewhere, and that naturally no great results could be obtained until the propaganda was given wider scope. I remember that four years ago, in the association of German banks, in anticipation of the approaching increase in our industrial activity and of the expected growth of our business activity in general, I pointed out how much useless money we lug about with us in business, whereas, in view of the season that was approaching, gold especially would serve a far more useful purpose if it were concentrated in large quantities in the Reichsbank. A prominent member of the association at once went to the length of sounding the watch cry: "For Heaven's sake do not take gold out of circulation; for when it is in circulation it is much better protected against being exported than when it is lying in the Reichsbank." Thus they went to extremes, instead of preserving the middle course, as it was my sole aim to do. If, then, we succeeded last year in developing more of a propaganda in this direction, and in extending our instruction

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over a wider area, it is only from that time on that we have had an opportunity to observe how far an understanding of the right treatment of all questions that pertain to the subject is likely to spread in business circles in general.

As for the deposit-and-transfer system, the raising of the deposit minimum is the most effective means of taking currency away from the Reichsbank. Gentlemen, before the last raising of the deposit minimum on the part of the Reichsbank, there was a very general idea that a deposit account with the Reichsbank cost nothing, that it was the eminently convenient and desirable means of payment; and many people handed over their deposits to the Reichsbank without considering that expenses must in point of fact be defrayed either by the person who makes a transfer or by him who receives it. I do not mean to say that all the depositors understood that they did not need to pay any costs. I merely maintain that the idea was widespread, and that where it existed people acted accordingly. Now, when the raising of the minimum was carried through, I encountered constantly in my profession people from all parts of Germany, especially from the banks of middle Germany, who said: An account at the Reichsbank costs so and so much per mille; but transportation of funds and insurance of them by an insurance company cost so and so much less; we shall be obliged, for good or ill, to take to remittances of cash. That this has actually happened is true. I am perfectly aware that for two reasons it is useful and necessary for the Reichsbank to demand a certain minimum balance as a condition of an account at the Reichsbank. One reason, the one which I consider the more important, is that in reckoning the amount of its demand

obligations it can practically deduct from its liabilities the sum of these minimum credits of its depositors; the other reason—which weighs less with me, but still is perfectly sound and natural—is that in some way or other compensation must be obtained for the tremendous expense and trouble that the transfer business causes the Reichsbank. I am therefore far from advising that we remove completely the deposit minimum, and perhaps compensate the Reichsbank for its removal by instituting fixed charges; but I wish nevertheless that the Reichsbank directorium would preserve a proper relation between the expenses of transportation and insurance through an insurance company on the one hand and the expense occasioned by the keeping of a noninterest-bearing minimum balance on the other, so as not to offer too much inducement for a resort to the transmission of cash.

As regards the use of checks, it is hardly necessary to enter upon a consideration of the complaints that have been made or of the abuses that have here and there arisen. It is quite natural that in the employment of checks, particularly among those who have been using them only for a short time, there may occur here and there occasionally certain excesses and improprieties. To undertake at this early day to prevent these things by special restrictions would perhaps be premature. We must watch the matter with some patience, and it is to be hoped that after further progress has been made we shall determine upon such measures as may be indicated as necessary by the experience of the various parties concerned. The check system will never become that perfect mechanism which Herr Schinkel has called

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to our attention in speaking of the Hamburg transfer system. But the Hamburg bank-account system presupposes an empirical development; it rests upon the assumption that we are dealing with a public having a thorough mercantile training and with bank managements that are in a certain degree expert in mercantile affairs. Whether in Germany we shall ever reach the point of being able to introduce generally a bank-account system even approximately equivalent to the Hamburg system I feel compelled to doubt.

The question has been raised whether the Reichs-clearing is to be looked upon as a means of making progress in the matter of the check system. Gentlemen, this strikes me as about as sensible as if one were to point out a high tower to one who had just climbed a little mountain, and say to him: Jump up! All the same, I am most sincerely grateful to the man who at the proper time undertook the very useful office of using his influence here in our banking circles, above all, in favor of the Reichs-clearing. I believe that I was the principal one to speak—much to my own regret—here in Berlin banking circles in opposition to the prosecution and development of this scheme, because in point of fact I was convinced that there were obstacles in the way of it that could not be overcome. When we compare our situation in the matter with that of England, we see that it is different in a great many respects, of which—in order not to bore you too much—I shall mention only two. In Germany we have different holidays in the different States. We have States whose economic activity is very great and in which, nevertheless, two or three holi-

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days often come in succession. On account of the great distances in Germany we have places in which the post does not arrive till the afternoon, so that it may happen that even on days that are not legal holidays the business brought by the post can not be attended to on the same day. Furthermore—and this is to my mind a reason that is by no means unimportant—we have to reckon with the peculiarities of our different economic centers, since there is certainly no occasion for doing away with them. The cultivation of economic differences and of the independence of a number of different States can not, I take it, be other than very beneficial. At the time of the proposal of a Reichsclearing a great many bankers, big and little, were asked: “Here are the arguments pro and con. What is your view as to the institution of a Reichsclearing?” Most of the practical men consulted expressed themselves, some for one reason, some for another, as on the whole decidedly opposed to it.

Gentlemen, if one can not have the mountain, it is still worth while to climb, in the first place, to a lesser height. From the habit of ascending the lower peaks one may easily acquire the desire to attempt the greater mountain. I am no less decided in my conviction that for the present a Reichsclearing with a central office in Berlin is out of the question, than I am in my approval of the plan of having clearing houses for the separate provinces, a plan proposed by Herr Geheimrat Riesser when he saw that there was as yet no practical possibility of instituting a clearing house for the whole Empire. For this purpose the Reichsbank is an agency ready to our hands. The only answer, therefore, that

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I can give to the whole question of how the deposit-and-transfer, check and clearing system may best be extended is this: In the first place, the Reichsbank must follow very carefully the whole movement in this domain; it must correct the movement at times and guide it into the proper channels; and when occasion arises it must step in and give it encouragement. And I think there are a great many cases that admit of being suitably treated, without the possibility of effective or influential opposition, if the different offices of the Reichsbank are held in close, or I might say organic, connection by the appropriate official in the Reichsbank administration, if the men at the heads of the different departments in Germany are kept constantly on the alert; since from the observation of practical affairs one may often catch suggestions for more or less important improvements, through means of which the whole machinery of motion may be strengthened. If this happens, we shall make safe and steady progress—though not in a day's time—in the whole financial domain. For example, a Reichsbank office would report: The offices of judicature in our district are altogether opposed, in spite of all the pains we have taken, to the opening of deposit accounts at the Reichsbank. You shall find, right here in Berlin to-day, any number of officials who persistently resist the plan of opening a deposit account with the Reichsbank and letting the public also have the benefit of such an account. The reason of this resistance is perfectly clear; before it is rooted out the present generation of our cashiers and treasurers will have to die out. [Very true.]

It can not be denied that if I, a cashier, say to myself, "If there is no more delivery of money, you are a superfluous person," I am naturally opposed to the idea of a Reichsbank deposit account. I should like to cite a practical instance. On one occasion I wrote to a district office with regard to a certain question, and added: "Will you kindly tell me whether you have a deposit account at the Reichsbank, since there is a Reichsbank branch in your district?" I received a very courteous reply, entering carefully into all the other points I had inquired about, but there was no answer to the question about the Reichsbank deposit account. Then, again, I availed myself later of another opportunity, and went and said to the district treasurer: "You have a great deal of business going on here, a great many large firms are in your district; I see the great sums of money that you have in your vault and that you must keep more or less all the year round. Have you not yet been convinced that on broad economic grounds you would do well to join the general movement?" Thereupon he replied: "Ah, our Herr Landrat is opposed to it." But I saw from his face that he himself was still more opposed to it.

This is human nature; the young men must step in and relieve the old ones; and the money cashiers must come to see that if they are no longer of use in that capacity they can still earn their bread just as well as before in the no less necessary capacity of book cashiers.

As for the acceptance of interest-bearing deposits, I consider that the taking up of this branch of business at the present time would be dangerous ballast for the Reichs-

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bank in two ways—dangerous because it would distract the Reichsbank from the concentrated attention which it must give to its own proper task, and dangerous because it may also at times disturb the perfect and necessary impartiality of the Reichsbank by giving it a certain bias. As has already been stated, the Reichsbank has, even according to its present constitution, a perfect right to take interest-bearing deposits, though only to a moderate extent. It has done so, and has given it up. In itself, that is no proof against its advisability, for a thing that fifteen or twenty years ago may have appeared to be desirable is not necessarily so to-day. All I say is this: If new and unforeseen circumstances arise which make it necessary for the Reichsbank, for reasons well weighed and established, to take up this branch of the banking business, it can do so at any time. If the experiments it makes are such as to warrant an extension of the business, ways and means will be found. For the present, however, gentlemen, it is to be hoped that our economic activities will still be conducted in such a way as not to complicate the stupendous tasks of the Reichsbank. And I should look upon the management of interest-bearing deposits, with all that it involves, as decidedly a complicating factor. If we wish to preserve and make certain under all circumstances that careful and calm consideration—a certain freedom of the Reichsbank in relation to our whole monetary system—then we must not make the performance of its functions more difficult by splitting up its activities.

As for the purchase of checks by the Reichsbank, I am convinced that since we have a check law the Reichsbank

should undertake this too, if only in order to escape the accusation that there is this flaw in its deposit business—that the Reichsbank fails to transact a part of the business which many customers often need to have transacted, and that the customer is sometimes obliged to apply to other banks. Among many banks and bankers it is, indeed, customary to take checks at once from any bearer in whom they feel sufficient confidence, making only a very small charge for the accommodation. I think, therefore, that in most cases of this kind the custom of negotiating such checks at the Reichsbank will not be adopted; but it is absolutely necessary that the Reichsbank be adequately equipped for popularizing the system of Reichsbank deposit accounts and for developing to the utmost the use of this system and of the check system.

Doctor RIESSER. Mr. Chairman, I think that no one can be very anxious to hear even the brief remarks that I should like to make; for we are all, I think, very much tired out.

The CHAIRMAN. I merely wish to remind you that some of the gentlemen will not be here on Monday.

Doctor RIESSER. Then if you will give me five minutes, I will at once proceed to answer Herr Geheimrat Wagner.

I should not have dreamed that the question of small bank notes could be connected with the question of free trade. Nevertheless, this has been accomplished by Herr Geheimrat Wagner. He said that Otto Michaelis and contemporary free traders were resolutely opposed to small bank notes, whereas now “die ihm nahestehenden Krise”—such were his words, by which he probably meant us who are stamped as free traders—express them-

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selves as decidedly in favor of the small bank notes. Herr Geheimrat Wagner is usually so lucid in the presentation of his arguments, and I derive so much profit from his expert knowledge, that I entreat him not to obscure his points by introducing his pet ideas by insisting on the dangerous increase of the tendency toward extreme plutocracy (I have several times answered him on this subject) and on the necessity of immediate legislative intervention wherever economic evils or defects are found, and finally by reminding us of the wicked theory of free trade. Since he has brought up the point, however, I wish definitely to state that of the men who have received their practical and theoretical economic training since 1870 there are, I am convinced, very few who may be called strict free traders—that is, very few who see safety in free trade alone, no matter what the circumstances may be. We all know very well that at certain times and for certain branches of industry or for agriculture the protective tariff is a necessity, although at other times—and we do wish that these might set the standard—free trade is a necessity.

But in regard to the particular question at issue, I wish also to state that we did not by any means declare ourselves firmly and resolutely opposed to small bank notes, but that we said we would recommend the issue only of such an amount as might be introduced into business without risk—only such an amount, that is, as the business world is willing to receive.

But in order to prove my willingness to meet Herr Geheimrat Wagner half way, I will say that it might be

possible, while limiting the amount of the 20-mark bank notes to 300,000,000, not to limit the amount of the 50-mark bank notes at all. But I must not pass over without mention the objection that may be made to this plan—that it is perfectly possible that our German business world is more fond of the 20-mark bank notes than it is of the 50-mark bank notes. This seems to be borne out by the fact that the increase in the number of 20-mark bank notes has been much greater, proportionally, than the increase in the number of 50-mark bank notes; we must therefore be very cautious with our limitations in this direction.

As for the small checks, in so far as their place is not taken in the natural course of events by the small imperial treasury notes, they can not be abolished by a law, as Herr Geheimrat Wagner has here proposed.

Doctor WAGNER. That is not what I proposed; I said, “if necessary, by rules adopted by the banks.”

Doctor RIESSER. But in the first instance by law.

Doctor WAGNER. I merely suggested this as a possibility to be considered.

Doctor RIESSER. If you do not defend it, I certainly need not attack it. I think that business itself will gradually enforce this exclusion; nor is it to my mind out of the question that in the clearing business of the provinces these small checks will be excluded from the clearing house by the adoption of a minimum. Of course, if this is done, they will be gradually excluded from the whole business world.

As for the imperial deposit bank proposed for our consideration by Herr Geheimrat Wagner, we shall have occa-

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sion to talk of that another time. I consider it, to express myself in parliamentary language, a Utopia.

Finally, I wish to call attention to the circumstance that, in point of fact, it was before the check law that the unfortunate situation in regard to checks arose; it was *before* this that the check came to be looked upon not as means of payment, but as currency, and that it consequently assumed the improper function of fiduciary currency; and I should like to remind you that by our present check law we took the most practical means to prevent this use of the check through fixing a short period within which it must be presented; there was a good deal of contention as to whether the period should be longer or shorter. Of course, some abuse is possible in spite of such regulations, and I will not omit to say that in England, in spite of the provision about presentation "within reasonable time," as a matter of fact checks are still to be found that have been in circulation for months.

Finally, I wish to express the great pleasure it gives me to find that Herr Roland-Lücke, who agrees with me in thinking a clearing system for the whole Empire not feasible because of the many difficulties involved, has also expressed his approval of my plan of provincial clearing houses.

The CHAIRMAN. Gentlemen, I will close the session for to-day. We shall meet again on Monday at 10 o'clock, and I hope that we shall be through at 12 o'clock.

(Close of session 7.55 p. m.)

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MONDAY, *October 19, 1908—10 o'clock a. m.*

Chairman, President of the Reichsbank Direktorium Wirklicher Geheimer Rat HAVENSTEIN. Count von Kanitz asks to be excused for his absence, important business preventing his coming to Berlin. I request Herr Geheimrat Wagner to take up Question V.

Doctor WAGNER. I shall make but a few very brief remarks. Some of the questions are of such a nature that I do not feel sufficiently competent to discuss them here; and this applies to the questions given under V. A. The idea, however, struck me that the enormous issue of notes at the quarterly periods was perhaps somewhat too great, and that a diminution could perhaps be effected. I would—speaking, of course, from the standpoint of one who is not directly familiar with these concerns—declare myself in favor of a somewhat greater increase of the expense of credits at the quarterly periods, as is indicated in the propositions here, by lengthening the time for which interest is paid. At present it is ten days, and I submit the question whether this period could not be extended.

I would only advance this unauthoritative suggestion, but would not make a definite proposition.

More important, in my estimation, is what comes under B. We can not here either, I believe, make any special definite propositions, but we can all the more emphasize the point that we must, in the interest of our entire economic life, demand that the Imperial Government shall be provided with better financial arrangements. I think this is not, indeed, totally unimportant, even as compared with all the great questions now at issue. For of this there

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can be no doubt, that the unfavorable condition of the imperial finances has further consequences—the prodigiously rapid increase of the imperial, and likewise, of course, of state and municipal debts; the circumstance that the prices of government securities have on the whole, at all events, greatly declined. All this has an unfavorable effect, at home and abroad, not only upon government credit, but likewise upon our entire economic concerns; for, as a rule, the rate of interest is, in consequence, raised in general to a certain degree. What this amounts to can not, of course, be computed exactly, but that it does to a certain extent take place is beyond doubt. In fact our economic life in general, as well as a great many special lines of business, suffers in comparison with countries where production is cheaper, particularly with France and England.

As regards the Imperial Treasury, I believe that we must have a material reenforcement of its working resources; and the following points might be brought out in this connection. It is, after all, really the Imperial Treasury which ought to be provided with resources for the redemption, sooner or later, of the imperial treasury notes, which has, indeed, been promised and may in critical times be demanded on a great scale. The same thing with the redemption of silver and nickel coins, which, to be sure, is less called for in ordinary times, but which likewise may, and probably will, assume greater proportions in critical periods. It is an untenable situation that the Imperial Treasury is given no special resources at all by the Empire for these two duties, which are nevertheless imposed upon it, and that no provision

whatsoever has been made for them. I consider this a very risky policy in critical times, such as, under the existing international relations, we may experience in Germany at any moment.

One suggestion, among others, appears in the statement of Secretary of the Treasury Sydow—and I can understand it from his standpoint—that, namely, the *propter* 150,000,000, that are gained by the increased issue of bad silver coins, should serve for the reenforcement of the working resources of the Imperial Treasury. But that this is right is not evident to me. This amount that is gained by the increased issue of silver money should rather be reserved for the needs of our currency and coinage, and not be used for the reenforcement of the working resources of the Imperial Treasury. But a considerable strengthening of the working resources of that Treasury is surely necessary for the current expenses of management, in order that the needs of the Imperial Treasury should not have to be provided for in the general money market.

As to a change of policy in regard to the issue of imperial treasury bills, I can not consider myself sufficiently competent in regard to this special question. I would only point out a general consideration respecting our imperial and state debts. We have lately, in the Empire and the separate States, contracted floating and bonded debts that are to be paid in a long series of years—three, four, five—up to the year 1912. From our standpoint, and from the standpoint of those in this commission who have been concerned with the gold, credit, and bank question, it must be pointed out that this is really a very risky financial

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policy. Can we know, then, whether we shall in two, three, four years be in a substantially better position than we are at present? It may indeed be that by raising the rate of interest an extension of the bills may be secured; but a certainty it is not. It would be better, therefore, that the loans which are needed should be either made in the form of *rentes* or in that of loans having a long time to run before maturing.

On this occasion I would at least throw out the following suggestion: Until now I had entertained the idea that a change to a pure *rente* debt was the right thing in principle and in practice, but I can not deny that, on account of our experiences with loans, I have lately had my doubts as to whether we are doing well with this pure *rente* debt and as to whether we should not return, to a certain extent at least, to rather long time debts. I believe that under certain conditions this would have a favorable effect upon the stock-market prices. In the case of debentures we have at least the prospect that they will sooner or later reach par, even if the market price is now, and has for a long time been, below par. In the case of imperial and state securities, however, as pure *rente* debts, this is not sure to happen within a reasonable time, unless an immense improvement in interest and credit conditions should take place. A certain regular allotment, where the securities are called in at par and liquidation is thus accomplished, or a regular heavier liquidation by buying back at the purchase price, would certainly have the effect of raising the market price. A great many middling and small capitalists would then, perhaps, say to themselves: "Of what consequence is it

to me if the $3\frac{1}{2}$ per cent securities, which I bought at par or somewhat lower, stand now at only a little above 90? I have, at any rate, the prospect that, in a reasonable time, I myself, or my family and my children, will finally get them redeemed at the full value at which they were originally issued, or at my purchase price. In this way I shall suffer no loss." At present this is not the case at all. I can not deny that I take this standpoint for my private concerns. I prefer, *ceteris paribus*, first liens of railroads and things of that kind, debentures, including those of mortgage banks, to *rente* debts of Empire or State. I should think that if we were to adopt the policy of long-term bonds we should thereby acquire a means of raising the market price of imperial and state securities to some extent, and that would prove beneficial to the community.

I would, further, raise a warning voice against too great a quantity of treasury bills. Everybody knows how extremely subject to change political affairs are. We saw this again a fortnight ago, when the new oriental crisis occurred. People, to be sure, often say that bank directors and diplomats know everything; but did anyone foresee that Austria would, on account of Bosnia, come to her well-known decision just at this time, or Bulgaria? The thing is that very unexpected events happen which may cause embarrassment as regards short-time bills. It is not always to be taken for granted that the present owner will want to extend the time, even at a higher rate of interest. This, it seems to me, is a critical point in the situation.

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All this requires, of course, an exhaustive exposition. Here we can only offer suggestions as to whether these questions are not important in connection with our monetary and credit system, while positive and specific propositions belong to a totally different sphere; they might, for instance, engage the attention of a commission which should have the question of the reform of imperial indebtedness under consideration.

These are the brief remarks that I intended to make.

In conclusion one more word in opposition to my colleague, Herr Riesser; it has reference to a preceding point, the question, namely, of small bank notes. I did not say in that connection that the "free traders were to blame here," but only designated it as characteristic that the advocates of free economic conditions were at first opposed to small notes because they saw in them, and rightly so, something of the nature of paper money, while lately, with us, these same circles have entertained almost too optimistic a view and have stood up for the small bank notes. I only wanted to show by this how, in relation to such things also, opinions are subject to great change among practical men who entertain these general views.

Doctor RIESSER. I turn now to the question of diminishing the demands upon the Reichsbank by a diminution of the credit demands of business, especially at the quarterly periods. A central bank of issue must in general maintain, much more strictly than a credit bank, the principle that it may, as a rule, make only such use of its assets as harmonizes with the nature of its liabilities. It can, in consequence, grant, as a general thing, only short-

time credits in the way of discounting bills and making loans on collateral, as its obligations in relation to its deposit and bank-note business are short-time ones. Herein we have the explanation, too, why the Reichsbank is, in general not in a position to meet the demands of agriculture to the extent that was, formerly in particular, often wished and asked for by the latter, since agriculture, where it is not solely dependent upon its chief basis of credit, real estate, must, owing to the nature of its processes of production, resort to long-term credits, which the Reichsbank can grant only by way of exception.

The demands of business upon the Reichsbank—those of commerce and industry, therefore, primarily—can in principle, consequently, be restricted only to the extent to which they do not harmonize with the nature of the only kind of credit which the central bank of issue can grant. This applies particularly, as a rule, to accommodation bills, which are not based upon mercantile transactions, short-time bills whose extension must at the outset be assumed as probable or certain, so that they are not, as should be required, liquidated at the expiration of three months. It applies specially to bills also which are presented for discount for the purpose of procuring permanent working capital, or, still worse, capital invested in fixed forms or money to be used for the gradual liquidation of debts incurred in the making of such investments.

Such bills, however, are not only of a character fundamentally different from that of the credit which has been mentioned as being within the scope of a central bank of issue to grant, but they may, as the president pointed

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out in the sitting of the 21st of May, 1908, impair the condition of the Reichsbank, and may also, therefore, under certain conditions, have an unfavorable effect upon the rate of discount. Such are the "illegitimate" bills which the order of the Reichsbank direktorium of December 7, 1906, had in view, since they, by their nature, involve one or more extensions. From these must be distinguished bills which are intrinsically "legitimate" or short-term ones; such, therefore, as may have to be extended, not, however, on account of their inherent nature, but because of some incident very difficult perhaps to avert, or bills whose extension, according to the nature of the business, is simply a substitute for making out new bills for new mercantile transactions. If the order of the Reichsbank direktorium previously referred to admits as an exception such bills also as serve to satisfy a temporary financial need of agriculture, even if a three-months' extension is at once indicated, or, owing to the nature of the business upon which it is based, is to be expected, then this exception does indeed go somewhat beyond the limits which had been set, but assuredly can but be welcomed in the interest of our agriculture.

The discount limitations which have been mentioned form thus the natural and also substantially the only barrier which the Reichsbank can, as a matter of principle, erect against the credit needs of business. Further it should not in general go, particularly at the quarterly periods, when it is specially called upon to answer the needs of commerce and industry, the private banks acting as their intermediaries in drawing credit from the Reichsbank. I must characterize it as an altogether erroneous idea to

wish to hold the banks, which are the great reservoir for the credit demands of business, responsible if, through their interposition, specially great demands are made upon the Reichsbank for discount credits and loans on collateral. These, for that matter, take the shape, precisely at the quarterly periods, almost entirely of short-time discounts and loans on collateral, so that just at those periods the demands upon the Reichsbank are almost exclusively made in a "legitimate" way for the "legitimate" needs of traffic. Naturally the banks, too, will have to strive to check inordinate credit demands on the part of their customers, as far as practicable, or try to effect an appropriate division or postponement of such demands.

I can not, therefore, approve the idea of increasing the cost of loans on collateral just at the quarterly periods, particularly since this increase of expense would simply be an injury to the borrower of money and could not by any means have a material effect upon the extent of discount transactions and of transactions in loans on collateral.

I would, however, declare on this occasion that it is out of the question to admit even short-time loans on collateral, of the Reichsbank, as cover for the notes, as has been suggested by some of the experts. Loans on collateral can not be regarded as liquid short-time assets in the same measure as three-months bills, since instead of having a number of responsible parties behind them, like the bill, they have but one; since, further, the realization of the pledge—securities or goods—presupposes a forced sale. It may be that the fact of selling at all is due to the condition of the money market and general business, or it may be that in consequence of that condition, particularly

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when other forced sales of like goods and securities are undertaken, such sales may yield fluctuating—that is, sometimes good, sometimes poor—results.

The most effective way of accomplishing the diminution of the demands upon the Reichsbank would now, as ever, be by a gradual great extension of the deposit-and-transfer system; furthermore, by the close connection which may be expected between it and the postal-check system and with the deposit and other banks and postal savings banks of foreign countries—a connection which is, for the most part, still lacking; finally, by the arrangement, which I have advocated, of provincial check-clearing offices and by the clearing system, already established, for mortgages and interest on mortgages, which might perhaps be extended to other periodic payments, such as rents. For all these measures would, in steadily growing measure, eliminate the need of cash in the making of payments.

One means of diminishing the quarterly demand, which is not desirable in every respect—namely, shifting the payments which are customarily made on the first day of the quarter—could, as a rule, only be accomplished by a change—very difficult and, at any rate, very slow of attainment—of that custom; of our general and business habits, therefore. The question concerns not only the paying of mortgages, rents, salaries, or pensions, but also payments of premiums on insurance; frequently also the payment of bills, etc. But, aside from this, a shifting of the time of maturity for a number of payments can only be effected if the period of maturity of other payments which are to be regarded as their substratum is shifted in consonance at the same time—as the time of payment of rents or salaries

or coupons simultaneously with that of interest on mortgages.

Nor should it be forgotten—a point to which I would call special attention—that a great number of arrangements in our civic life, some of them resting on the sanction of law—such as the custom or duty of the banks to draw up the quarter-yearly balance sheets, serving legal notice of the discontinuance of service or contract relations at the close of the calendar quarter year, and many other things—are most closely bound up with this system of quarter-yearly payments.

However, much might be done. Thus it might be arranged that the days of liquidation should not, either in our German exchanges or in those of London and Paris, be made to fall exactly upon the last day of the month, but a few days before, and, joined to this, a shifting of the present four weeks' grace for the granting and drawing of *report* moneys might very well be accomplished.

But though several experts have, in this connection, considered it desirable to shift the time of paying the interest on loans of the Empire and of Prussia—April 1 and October 1—it may be said in answer that according to existing usage the coupons on these loans are redeemed as early as the 20th of the month preceding the one on which the payment is due; that consequently the money market just on those days, April 1 and October 1, has very few demands upon it through these payments.

As regards the restriction of the credit demands of the Imperial Government, a reenforcement of the working resources of the Imperial Treasury can be thought of only in connection with a radical financial reform, which it is

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to be hoped will be achieved. The imperial treasury bills, which are from time to time discounted by the Reichsbank and are used to cover the temporary needs of the Empire, will also then, as a natural consequence, diminish in quantity. Here it must not be forgotten that the Reichsbank, in discounting such treasury bills, possesses about the only—and in many ways a quite effective—means of exerting an influence upon the determination of the private discount rate. It appears very questionable, therefore, whether it would be desirable that the Reichsbank should subsequently—a thing, to be sure, hardly to be apprehended—no longer be the recipient of considerable amounts of imperial treasury bills.

Freiherr von GAMP-MASSAUNEN. Gentlemen, if we wish to answer the question whether by restricting credit the demand upon the Reichsbank could be properly diminished, I should, to begin with, like to see an agreement reached as to what is meant by a legitimate demand for credit. Upon this there is a considerable diversity of opinion, and theory and practice are often sharply opposed to each other. The theorists are quite right when they say that the duty of the Reichsbank is, first and foremost, to maintain the monetary standard. But the practical people are also perfectly right when they declare that the Reichsbank is our preeminent credit institution and that we can not surrender the attribute which makes it a credit institution without inflicting serious injury on the economic life of the nation.

We have heard this last position maintained with great determination by a large number of experts, and, in my judgment, those people were really right. If the Reichs-

bank has repeatedly pointed out that it was placed in an unfavorable position through an immoderate demand upon its resources, then I must admit that the term "immoderate demands" may at times be justly applied. I maintain, however, that the regular and legitimate demands upon the Reichsbank were naturally obliged to increase materially, since our population has been annually augmented by from 800,000 to 900,000, and since our entire development, and particularly the development of our international trade and of our industries, has assumed such vast proportions. The Reichsbank can not make out a case by pointing to the fact that the demands upon it have risen considerably from year to year, that in the year 1876 it had in its portfolio, on an average, only 402,000,000 marks in bills and in 1907 over 1,100,000,000 marks. We must come to a definite decision on this question: What are legitimate credit demands? and the Reichsbank must provide for these legitimate credit demands under all circumstances and make itself so strong that it can satisfy them out of its resources. We come thus to quite another point, that the Reichsbank requires a very much larger stock of gold, in order that, supported by this augmented gold stock, it shall be able to maintain without difficulty a very much larger note circulation; it will then be able to satisfy the needs of industry in a more abundant measure. We should, indeed, first of all, have ascertained exactly what conception the Reichsbank entertains of its duty toward commerce and industry; we could then have resorted to criticism only where, in our opinion, this conception of the Reichsbank was a false one.

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I would, in the next place, agree unreservedly with Doctor Riesser that agriculture needs other ways of obtaining credit; and I believe that the times are past when the champions of agriculture, among whom I myself was to be reckoned, claimed of the Reichsbank that it should in its arrangements have regard to the interests of agriculture also. At that time this claim was justified, because the Government had established only this one institution, while now it can not be maintained, since Prussia and the other States have made provision for the needs of agriculture in ways which are satisfactory to it. The agriculturists, consequently, do not wish to have anything more to do with the Reichsbank.

The question of principle, therefore, as to the duties of the Reichsbank toward commerce and industry must first of all be settled; and when we settle that we shall see that we must have considerably ampler arrangements for the Reichsbank, a considerably broader basis, a greater stock of gold, etc., in order to satisfy those needs. And I would request that the Reichsbank should take advantage of some occasion—we may get statements upon this in the Reichstag, but it would perhaps be better if we obtained information already here—to tell us how, as a question of principle, it regards its position toward those forms of activity, and whether it considers an issue of 1,400,000,000 marks of notes an abnormal requisition upon it. According to the law it is, to be sure, an abnormal requisition, as appears from the imposition of the tax on notes, which, judging from the debates in the Reichstag at the time of its enactment, must be regarded as a warning

signal; this point of view certainly can not any longer be maintained.

Now, gentlemen, one view was advocated here in the boldest manner by Herr Geheimrat Mueller, who indicated, though he did not expressly say this: It is really best and most appropriate for the private banks to satisfy, on the whole, the credit needs of industry and commerce; the Reichsbank must, however, stand back of them and bind itself, under all circumstances, to accept their bills, which will always be almost entirely short-term ones. This would bring about a situation which would, of course, be very desirable for the private banks; the private banks would then lend industry money perhaps during three hundred and twenty days, and during forty days, it may be—that is, ten days at the beginning of each quarter—they would go to the Reichsbank and say, “Now help me out of this trouble and give me money, in order that I may fulfill my obligations.” Herr Geheimrat Mueller said that the granting of credit must be restricted. On some points I wish to take his side. It is an established fact that the management of some of the Reichsbank institutions has not been free from objectionable features. These errors have been corrected by very energetic measures, and I regard this matter, consequently, as settled.

Now, gentlemen, can the position of the Reichsbank, to which it gave expression in a general order communicated to us be consistently maintained—the position, namely, that for the needs of industry, under whatever circumstances, only a single renewal of a bill is admissible,

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while in the case of agriculture a second renewal is permissible? I feel particularly grateful to the president of the Reichsbank for recognizing that conditions in the agricultural factories—and it is these only that are in question—are different from those that prevail, as a rule, in other factories and in commerce. Now, agriculture harvests its potatoes and beets only once a year, and if it works up its beets and potatoes in the sugar or starch factory it can, naturally, not get along with a three months' or a twice three months' credit; it is, therefore, justly granted a third three months' credit, at least in exceptional cases. I would, consequently, request of the president that where, after careful examination, the conditions in an individual case prove to be such that the starch companies or the sugar factories can not manage with that credit, exceptional regulations, having regard to the special conditions, shall be made.

Exceptional conditions may prevail in industry also. A spinning mill will, as a rule, except in case of disturbance or crises, etc., turn out its full capacity pretty evenly, and is able to get its raw material pretty evenly also. But there are different branches of industry which are compelled, in a certain measure like agriculture, to purchase their material within a very short period of time. I have in mind here a particular sort of industry, namely, that of salmon smoking, which buys its salmon in America and within a definite short period—a month, or perhaps even two weeks—and is, therefore, obliged to carry on its operations with a longer credit. I am glad that in this instance the Reichsbank acts in an accommodating spirit, and I would state that this elicits our decided approval.

And now, gentlemen, I will acknowledge that on one point I have come to a more correct conclusion. I expressed myself in the Reichstag in opposition, as a matter of principle and of general practice, to the demands made upon the Reichsbank on the first of the quarter by short-term bills, and requested, therefore, that this practice should be checked by energetic measures, particularly by increasing the cost of credit. The debates of the experts showed me my mistake and I wish to acknowledge that a great number of short-time obligations are naturally crowded into the first day of the quarter, and that I do not perceive such a weakening of the Reichsbank as must be checked by enhancing the cost of credit, in the circumstance of the banks and private persons drawing short-time credits from the Reichsbank at those periods. It is less a question of credit here than of instantaneous and temporary procuring of money for payments—for instance, of interest on mortgages, rent, etc.—which are naturally crowded into the first day of the quarter. Thus, so far as the question concerns such demands upon the Reichsbank, I am inclined to correct my view.

It is somewhat different, indeed, if we turn to the bills which the banks present with the object of procuring money for themselves. Here, I think, the Reichsbank ought to investigate somewhat more carefully, in order that the banks should not entertain this idea: You can grant heavy credits, since the Reichsbank is at your disposal for all contingencies, on the 25th of September or December, and you can, consequently, get through the difficult periods. Here the matter actually concerns the procuring of credit, and I believe that in this case the

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Reichsbank should see to it that the credit drawn at these periods be restricted. There are a great number of ways, indeed, of bringing this about. The chief means, it strikes me, would be to arrive at an understanding with the banks, so that they should be induced to refrain, as far as possible, from demands at the difficult periods, making it clear to them that they can by no means reckon with absolute certainty upon obtaining the necessary amounts from the Reichsbank on the 25th of September or the 25th of December.

I hold, further, that the Reichsbank should do its utmost to shift the demands of industrial and mercantile business away from the beginning of the quarter. I know very well that this can not always and everywhere be done. The needs of business are often stronger than any precepts. I know all this, but much can, nevertheless, be accomplished. The starch companies and the sugar factories can be told that they will be granted the desired credit, but only under the condition that they shall not apply to the Reichsbank in the periods between September 20 and October 10 and December 20 and January 10. Then these companies will gladly agree to avoid these difficult periods, and they can—I have very accurate information as to this—avoid them to a certain extent, just like other branches of industry. The object would thus be attained if the Reichsbank made its compliance contingent upon saving those difficult periods from credit demands. Other branches of industry could be proceeded with in the same way. If the manager of the Bank is judicious and tells the manufacturers that

they should avoid those periods as far as possible, his request will, I believe, be met satisfactorily enough.

A VOICE. But it can not always be postponed.

Freiherr VON GAMP-MASSAUNEN. But there is much that can be postponed. [An interruption.] Certainly, but there is a difference if I apply with a demand to the Reichsbank or one of its branches on the 25th of December, or if I come on the 15th of January, when the money has in great part flowed back.

I would add one more question in reference to the statements made by Geheimrat Riesser, who justly, in my opinion, laid stress upon the point that we must adhere to the principle that bills should originate in actual mercantile transactions. I would ask whether the Reichsbank adheres absolutely to this principle in the case of the great banks also, and whether it does not, under certain circumstances, accept credit bills of the banks, too, and grant them credit without such a basis? [An interruption.] I am glad to learn that the Reichsbank does not do this. But I should like to be informed whether the banks also adhere to the principle that the money of the Reichsbank is not meant to serve the purpose of satisfying the credit needs of these banks or of providing the necessary working capital, but is to be applied for only when the business in which the bank is engaged is based upon a mercantile transaction.

In these few remarks I have replied to the question, What measures can be adopted in order to effect the shifting of the quarterly demands?

As regards the question whether it is desirable for the Reichsbank to increase the cost of loans on collateral at

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the quarterly periods by increasing the number of interest days, I think that loans on collateral occupy a very exceptional position. From the well-known resolution of the Reichsbank directorium, which is published in the green book, it appears that the highest aggregate allowed in general is fixed at 180,000,000 marks, but that in exceptional cases it far exceeds that limit.

A VOICE. No limit!

Freiherr VON GAMP-MASSAUNEN. Well, no limit. Now, I must say that this seems a serious matter to me, particularly if these loans on collateral are granted to an unlimited amount even in hard times. If the Reichsbank grants loans on collateral up to 180,000,000 marks as a rule, and in times of stress allows far more, this is a matter which may to a very considerable degree prove prejudicial to the solvency of the Reichsbank, for loans on collateral are by no means adapted for the settlement of the obligations of the Reichsbank. Even bills are hardly that, since they involve for the most part a three-months' credit, while notes and deposits require immediate payment; and in the case of loans on collateral, if they are granted under all circumstances, the period of repayment is extended to the illimitable.

Now, Herr Riesser, in considering the measures which would tend to relieve the Reichsbank at the beginning of the quarter, overlooked the most important one, and that is declaring the Reichsbank notes legal tender. We have heard that the Reichsbank disburses 100,000,000 marks or more in gold at the first of the quarter for officials. That would be done away with; so would the payments in gold, of which Herr Kommerzienrat Schmidt has spoken,

to which employers hold themselves pledged. All obligations, in so far as they do not touch the Reichsbank, could then be settled in bank notes, and these bank notes will presumably not come to the Reichsbank before the 15th of January. If they come after that, the chief crisis will have been passed. But if the payments at the difficult periods are made in bank notes instead of in gold, and the gold remains in the Reichsbank, it can, by an increased issue of notes, satisfy the temporary needs without prejudice to the general interests or to its stock of gold.

Gentlemen, I would call attention on this occasion to still another point which I believe has not yet been settled in the spirit which I advocated at the time in the Reichstag, namely, that the redemption of the coupons of Imperial and State loans should be facilitated as far as possible. I admit that the Imperial Treasury has, in this connection, issued a praiseworthy order; I believe, however, that the public is not sufficiently informed about it, otherwise more use would have been made of it. Perhaps a reference in the press would help to spread the knowledge of this order—that the coupons of State and Imperial securities must be accepted for payments, after maturity, and perhaps even a few days before, in all public offices.

The matter has, it is true, an objectionable side also, which is that the officials are liable in case counterfeit coupons are given them. This liability ought, I think, to be arranged somewhat more liberally, for it is obvious that the officials can not be compelled to accept these coupons as payment unless they are absolved in cases

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where, without gross negligence on their part, counterfeit coupons slip in. But, gentlemen, the point that has not been given due consideration in this regulation of the Imperial Government is that the redemption of larger amounts depends solely upon the free will of the postal establishments. I think that the obligation to redeem should at once be imposed upon all these places; but, except in case of gross negligence, the Government would, of course, have to be made liable for the acceptance of counterfeit coupons.

A VOICE. It is done now.

Freiherr von GAMP-MASSAUNEN. It is done now? At any rate, this objection was pointed out to me by officials with whom I discussed the matter. But if it is done, then I do not understand why the redemption of the coupons of Imperial and State securities has not been made obligatory upon officials generally. Furthermore, I would on this occasion beg the Reichsbank to act more liberally when counterfeit notes are passed off upon a private individual. I have always thought that the Reichsbank should do this not as a matter of compulsion and legal obligation, but out of forbearance and in order to protect the recipients of their bank notes. I must candidly admit, moreover, that I would in future consider well before accepting Reichsbank notes, if I had to apprehend that in case I accepted a counterfeit thousand-mark bill, I should be left with it on my hands and lose my money. I feel that the Reichsbank should be more complaisant in such cases, and, except in the event of gross negligence, should redeem the notes.

A VOICE. That would be an incitement to counterfeiting.

Frieherr von GAMP-MASSAUNEN. Well, yes, it may perhaps involve an incitement to counterfeiting; but that if a request of this kind is made to the Reichsbank by trustworthy people, it might be looked upon as an encouragement to counterfeiting I would not assume, anyhow.

A VOICE. Want of care.

Freiherr von GAMP-MASSAUNEN. I dispute that in even the majority of instances it is a case of want of care; it often happens to experienced cashiers that they do not recognize the counterfeit; and as for the general public, it is quite impossible for them to remember the instructions, published in the *Reichsanzeiger*, whereby counterfeits may be detected. Frequently, besides, the thing involves such delicate subtleties that a practiced cashier can perhaps recognize them, but not one of us. How should I, for instance, be able to recognize whether the number "07" is printed somewhat more heavily or less heavily in the counterfeit? That is simply impossible! I wanted, therefore, to give expression to this wish. Perhaps the Reichsbank may be inclined to give it some heed, anyway.

I come now to B—diminishing the credit demands of the Imperial Government. Here I would, in the first place, make a few remarks bearing upon the views expressed by Geheimrat Wagner, who adverted to the question whether long-term loans with definite times of payment or with periodic redemptions by lot should not again be introduced. This suggestion is in agreement

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with the desire to which I gave expression in another place, to afford protection to trustees and a great number of other classes of people against immeasurable losses, such as they have sustained through the continual decline of the market price of securities, which must really deter every cautious person from investing in imperial or state securities. We have at present, at any rate, a critical state of affairs where the market price of securities is declining and redemption at par, therefore, would be a great advantage to those concerned. But I am of the opinion that we do not have to reckon with a permanent material increase of the rate of interest, but that in some years, after we shall have gotten over this crisis and better conditions shall prevail, we shall again have a decreasing interest rate. However, I do not want to indulge in prophecies, because, as is notorious, it is the most difficult of all undertakings. I did at the time vote in favor of the law which authorized the Imperial Treasury to issue these treasury bills having several years to run, because we assumed that the conditions of credit would after four years be more favorable. Whether this was a mistaken calculation, Herr Geheimrat Wagner can not tell us even to-day. Perhaps he can do so after four years, but then it could no longer be changed.

I have, indeed, often advocated the view in the Reichstag that it is an absolutely loose proceeding on the part of the Imperial Government to cover permanent needs by short-time treasury bills, and I proposed that it should issue consols where permanent needs are concerned.

Otherwise the issue of treasury bills, the volume of which is subject to considerable fluctuations, has the ad-

vantage for the Imperial Government that it does not have to pay interest in times when it is not in need of money. I have never shared the view of the former president of the Reichsbank who said that whether the Reichsbank takes the treasury bills or whether the treasury bills find their way to the little people through the medium of the Imperial Treasury or of the state treasuries, is just the same, since every one who purchases treasury bills goes to the Reichsbank and gets his money in gold, and, consequently, the effect is the same as if the Reichsbank took these treasury bills directly. I regard this view as absolutely erroneous, and I believe that the present president of the Reichsbank shares my view.

I hold that by all means the working capital of the Imperial Treasury must be increased. That is the most urgent requirement of our financial policy, and I believe that we shall hardly encounter any difficulties in this direction. The enormous advances which the post-office has to make to the trade associations must above all be taken into account in this connection. An agreement could very easily be reached which would make it incumbent upon the trade associations themselves to advance to the post-office the money which it has to disburse, and in return for this would exempt them, on the other hand, from contributing to the reserve fund after it reached a certain amount. Upon this basis an arrangement could very easily be made with the trade associations, and we should in that way remove the chief cause for the excessive demands upon the Reichsbank for public purposes.

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I can not agree with the view of Geheimrat Wagner that the gold standard must be so interpreted that anything that is used as a means of payment must be covered by gold—silver money and imperial treasury notes also, therefore.

Doctor WAGNER. The 150,000,000 would be only one-eighth.

Freiherr von GAMP-MASSAUNEN. But I put it to you; Where shall we get all the gold if we are to raise 150,000,000 for this purpose and 50,000,000 in addition for the treasury notes? We simply haven't got the means, and if we could to-day buy 200,000,000 more of gold, I should consider it a better policy to allow it to go to the Reichsbank than to use it as a cover for the new silver money and the imperial treasury notes. We can not do this at present. Nor do I indeed feel any great anxiety, and I think the inferiority of those mediums of circulation should not always upon every occasion be brought into prominence. The German Empire is not as yet so poor and devoid of credit that it could not redeem its treasury notes and the silver money. We can look with confidence into the future if we can succeed in correcting the mismanagement of imperial finance in the past and in placing our finances upon a healthy basis.

Doctor LEXIS. Gentlemen, I just wish to remark briefly that in my opinion the crowding of the credit demands into the first day of the quarter is, after all, chiefly the result of our insufficiently developed system of payments. ["Quite right!"] The question here is really not one of credit demands, but of the need of circulating medium which is not at hand at the moment.

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Doubtless millions of notes are to-day needlessly taken from one bank or office to another. A great number of people require money at the end of the quarter, in the shape in which for the present it is in the main at our disposal, namely, notes or specie; they draw the requisite quantities of notes accordingly from the bank, pay their creditors with them, and the latter, perhaps, have on their part likewise drawn out notes on the same day; and thus an unnecessary run upon the bank is the result, which, however, adjusts itself in a few days. When the check system, the deposit-and-transfer system, and the clearing system shall have been further developed a great part of this concentrated demand, not for credit but for money for payments, will decrease of itself. These demands upon the banks, since it is only a question of satisfying the passing needs of circulation, involve nothing serious. Consequently, I do not regard it as a grave matter, either, if for a short space the volume of loans on collateral used simply for that purpose is considerably increased; for it is really the most convenient means of satisfying such momentary needs of payment. In itself, of course, the granting of loans on collateral as compared with bills is a more doubtful transaction for a bank of issue, for by giving notes in return for collateral the circulation may be suddenly increased from the air, as it were, without being founded upon any corresponding mercantile business. But if it is only a question of increasing the means of payment for a few days, in order to satisfy a concentrated need, then a considerable swelling of the loans on collateral is not to be looked upon as dangerous. Thus at the close of last year the amount of loans on col-

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lateral rose, by way of exception, to 364,000,000 marks; this lasted but a few days, however; the Bank was, consequently, not induced by it to increase the rate of discount, and in a fortnight things had got back to the normal.

For this reason, too, I do not regard it expedient to increase the expense of loans on collateral by increasing the number of interest days; the flowing back would not be accelerated but retarded by this means; for if people have to pay interest for fourteen or twenty days they will retain the money that long, too, and just the opposite of what is desirable would be accomplished thereby—the return flow, the restoration of normal conditions, would not be hastened. Consequently I believe the remedy for the great demands upon the Bank at the quarterly periods to lie preeminently in the future development of the check system and the deposit-and-transfer system.

The other measures will not prove very efficacious. The payment of the salaries of officials, which is now made on the 1st, might be changed to the 15th of the preceding month. But in general all quarterly payments are so closely connected with each other that it will be difficult to pick out anything here.

That, for the rest, a diminution of the demands on the Reichsbank may be attained by guarding against illegitimate credit, I regard as a matter of course. Provision has indeed been made that in future no abuses of this kind shall occur.

As far as the question of diminishing the credit demands of the Imperial Government is concerned, it will solve it-

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self when we shall finally have emerged from the wretched condition in which our imperial finance has been. An increase of the working resources of the Imperial Treasury will then also take place of itself, and it will no longer be necessary to go to the Bank with such a mass of imperial treasury bills.

Mr. FISCHER. Gentlemen, in regard to the question whether it is desirable to effect a diminution of demands upon the Reichsbank by a restriction of credit demands, we must, I think, take the date which the question sheet bears into consideration. If I look at the time when this question was originally put, then I think that it should in a certain sense be answered in the affirmative. The representatives of the Reichsbank themselves dwelt upon the fact, in the inquiry commission, that in spite of their long-continued efforts they had not yet succeeded in keeping certain unsuitable permanent credits away from the Reichsbank, and that they would continue their endeavors in this direction. If, however, we look at the present condition of the Reichsbank, we might rather answer the question in the negative; for it may well be assumed that a part of the diminution of the volume of bills which has taken place since last year is to be ascribed to the success of those efforts. The president of the Reichsbank has informed us that, according to opinions which are decisive for the management of the Reichsbank, credits were granted in some of its branch establishments which were not appropriate for a bank of issue, if looked at from the right point of view; that the notes which the Reichsbank pays out should flow back quickly to the Bank; that, consequently, they may be given only for

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such bills as arise from transactions which terminate with the bill itself, in order that the resources of the Reichsbank shall then be free to be used for new business. Aside from certain kinds of credit, frequently referred to here, which in their nature require an extension, that is the only correct principle. Besides, I regard the discounting of bills such as have been mentioned as disadvantageous, because I believe that there is greater danger as regards their ultimate payment than in the case of other bills, while the cover of notes should be as secure and unexceptionable as possible.

I feel as if I must dwell upon still another mistake in this policy. I will not deny that in the course of the last years I have frequently wondered why, in times when money was flush, in times when money was very abundant in the market and found no adequate use, why, in spite of this, only a relatively small diminution of the Reichsbank portfolio took place. It is possible that this is to be ascribed partly to the so-called permanent bills, that a certain steady stock of bills held by the Reichsbank, which remains unchanged through the variations in the stream of short-time bills coming from the provinces, is increased by this operation. What, now, is the effect of such an erroneous disposition? Unquestionably that the Reichsbank goes beyond its duty, which is to provide the market with such resources only as it absolutely requires in order to carry on the actual business of that particular time. If we assume that in this way any given sum—let us say 200,000,000 marks—is permanently taken up, then this figure—since it can not, out of regard for those who obtain credit, be reduced, and will therefore not be reduced—

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will contribute toward bringing it about that in times when gold is abundant the market will have at its disposal resources which by rights it should never have had. For the rate of interest established by the Reichsbank should signify a certain closure; it should, because it is higher than the market rate of interest, prevent the Bank from having too many demands made upon it, and should prevent money that is not needed from overflowing into the channels of business. But if, owing to the quality of the bills, this door is opened, more money flows to it, and I regard as a consequence of this mistaken policy, which is now happily being changed, the great difference existing at present between the private discount rate and the bank rate. The private discount rate will always be the expression of the volume of means at the disposal of the money market. When these means are too great it must be made lower than is desirable, and since in this discussion so much has been said regarding this very point, I did not wish to neglect to show what a mistake, viewed with reference to the fundamental idea of the Reichsbank, such a disposition of bills may involve. I can therefore but hail with delight the fact that this evil is recognized and that energetic measures are about to be taken to abolish it; we know, of course, that beginnings in this direction had already been made by a number of regulations in the past. I believe it is true that in the years 1906 and 1907 the effect which I have dilated upon here was not so pronounced, for the quantity of circulating medium required by the market was constantly increasing, and the Bank would presumably, even if these bills had not been discounted, have been the recipient of more

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bills of a different nature, because business was in need of a certain amount of currency.

If, now, however, I look at the question in its relation to normal conditions, where these abuses do not exist, then I would answer the question which has been put in the negative. It can not be desirable to effect a diminution of the demand upon the Bank, for this demand is in consonance with the function it has to fulfill—to supply the market with the currency which it needs. An attempt in this direction would unquestionably lead to our having an irregular and uncertain market, and that I can not regard as an advantage.

As to the diminution of credit demands at the quarterly periods, I, too, consider it very desirable to bring about this diminution chiefly through the extension of the check and transfer systems, in order that money which remains in circulation during but very brief periods, only to flow back again to the Bank, should not needlessly be made use of. This can, of course, take place only gradually. Partially something has already been done in this direction through the system of mortgage clearings.

As regards the shifting of the payments of salaries, I must confess that I think it does not promise much. If salaries are paid at certain dates, it is essentially really because the main expenditures of the officials occur at those dates. These expenditures must be met, and but little economizing of the circulating medium will be accomplished by attempting to shift the period of the payment of salaries. It is another matter if we seek to bring it about by means of propaganda that our better-

paid officials shall open bank accounts, for then the part of their salaries which is not immediately needed will not have to be drawn in the shape of notes or gold, but can be gradually used in accordance with needs as they arise.

So far as the coupons are concerned, it strikes me also as correct that the disturbance which is caused by their payment is only a slight one. The paying out is spread over a period extending from fourteen days before the quarter day to about fourteen days after it, and it is not necessary for the coupon offices to have the full amount of the coupon requirements on hand, because experience teaches that the redemption takes place only gradually.

What I should consider as a matter of greater importance is that rents should no longer be paid in cash, but frequently in checks. It is remarkable that just in this kind of payments there should be such an aversion to accepting checks, when we consider that the payment of rent is made in advance. One would suppose that if the tenant allows a three months' credit to the landlord, he on his side could, for a day or two pending the cashing of the check, accord the same confidence.

Is it advisable to increase the expense of loans on collateral by increasing the number of days for which interest has to be paid? I would answer this question in the negative. The withdrawal of money from the Reichsbank in the shape of loans on collateral at the end of the quarter is a part of the withdrawal which must necessarily take place at such periods. Now, whether this withdrawal occurs in an increased measure through the discounting of bills or through loans on collateral strikes me as a matter of no essential importance to

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the Reichsbank. The return flow in the case of loans on collateral is relatively even more rapid. On the other hand, I should not consider a diminution of the number of days for which interest is to be paid advisable either, for that must lead to the result that the withdrawals will be deflected from the discount to the loan business, and the inferior quality of loans on collateral as cover for notes tells me that this is not to be favored. Supposing, for instance, that there were no limitation as to the number of days for which interest is to be paid, a great part of the bills presented to the bank for a day or two would take the form of loans on collateral. The consequence would be that the swelling of loans on collateral—since on the whole an increase of between five and six hundred millions at these quarterly periods is in question—might possibly be much too great. I consider it important in the interest of the business world that in normal times loans on collateral should not be resorted to in any great measure, for this kind of security should form a reserve—and one not too often made use of—for times of difficulty. But in my judgment it is a mistake to assume that the drawing of loans on collateral is instigated by the Bourse. Such is not the case. As a general thing, the Bourse makes less demands for money at the quarterly periods than at other times. But since at those periods considerable demands of other kinds are made upon the great establishments and the money lenders, they must necessarily diminish their loans to the Bourse, and for a portion of this diminution some of the middling Bourse firms may apply to the Reichsbank for loans on collateral.

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For the same reason I do not think that the shifting of the date for Bourse settlements to the 3d, 4th, or 5th of the month promises any good results. The transactions on the Bourse, which are wound up on the last day of the month, require, in consequence of the excellent arrangements of the Berlin Kassenverein, very little ready money; I might almost say none. The increased rates of interest are assuredly, then, not due to the augmented demands of the Bourse; but the increased rates that are demanded are based upon the necessity of getting more notes into circulation for the needs of general business and of taking them from the Reichsbank. But since the rate of the Reichsbank is always higher than that of the open market, this is only effected, of course, by the rate of interest in the open market being made to approach that of the Bank. If in some other banking centers the settlement days have, in spite of this, been changed to two or three days after the close of the month—as, for example, in Paris and Vienna—the cause for this was a different one, for we find also that London, for instance, adheres to the last day of the month. The reason for this change in Paris and Vienna was not the desire to prevent the strain upon the currency, but to allow for the possibility of sending arbitrage securities from one point to the other. If the same day had been chosen at all the places, it would have proved an obstruction. It is not, therefore, any special experience of the other places which finds expression in this action, but it is the desire that Paris may procure securities from London, and Vienna from Berlin, that has led to this shifting of the days.

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As to the question of diminishing the credit-demands of the Imperial Government, the necessity of strengthening the working resources of the Imperial Treasury has been insisted on, and I fully agree with this view. In regard to the imperial treasury bills, the point was maintained with great energy in the inquiry commission by some of the members, that it would be very desirable for the Reichsbank to have a greater stock of treasury bills at its disposal, in order that it might be able to exercise a greater influence on the money market. But I should like to point to the reverse of this, too. As the Reichsbank obtains these treasury bills only when it gives notes in return for them, it or the Imperial Government produces an evil, in the first place, which is to be subsequently corrected gradually, and then only partially, by the sale of treasury bills to the Reichsbank. If the Government, upon whatever grounds, requires considerable sums of money and goes to the Reichsbank with treasury bills, it signifies that the money given for them by the Reichsbank comes into circulation by way of the imperial disbursing offices (*Reichskassen*), and this takes place independently of the general money needs of business in themselves. Two things are thus brought about by this: simultaneously with an unfavorable condition of the Reichsbank, there is a disproportion between the resources of the open market and those of the Reichsbank, which here again leads to a widening of the gap between the private discount rate and the bank rate. In other words, the use of bank notes for government purposes is more or less an inflation. I wish that the proceeding were of the opposite character; that the Reichsbank might indeed now and

then be in possession of treasury bills, but only when the money for these treasury bills need not be raised in the open market. Then, to be sure, the stock which it would have could be well applied to exert a corrective influence, when it finds it necessary, upon the conditions of the market. I regard the present method, therefore, of the Government *eo ipso* applying to the Reichsbank as a matter of course for all the needs which it satisfies in the shape of treasury bills, as one that ought to be improved. It appears to me that it would be preferable if the representatives of the Government would first try to dispose of as great a quantity of treasury bills in the open market on terms as satisfactory to the Government as the condition of the money market will allow, the Reichsbank to receive only the possible residue. In the taking of such a residue, I do not see that there would be any bad effect as regards the Reichsbank's function of regulating the circulation. For if these bills, too, were placed upon the open market it would have the effect, which, as Herr von Gamp has related, Reichsbank President Koch described, namely, that a person who purchased treasury bills would have to draw the money for them from the Reichsbank. I would recommend, therefore, that the attempt should first be made to dispose of treasury bills freely in the open market. I would recommend also, in support of this method, that in discounting treasury bills the Reichsbank should not be unconditionally forced to adhere to the bank discount rate; I would regard it as admissible in this case to make an exception to the regulations hitherto obtaining that under 4 per cent only bank discount rates may be granted. The bank will then, by this occasional purchase, either

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directly from the Government, or it may be in the open market, and by the subsequent sale of these treasury bills in the market, have a permanent means of exercising a certain control over the open money market; by ceasing its purchases or by raising the rates of such purchases, in case there is a sufficient quantity of treasury bills circulating in the open market, it will be able to exert more influence upon prices in the open market than it does at present by having the sole disposal of treasury bills. The sale of treasury bills is not at all times a sure means of exerting an influence upon the money reserve of the market. If the bills go abroad, and if from this cause periodic money or gold movements arise as between ourselves and foreign countries, the money in question is taken not from inland but from foreign trade. In this case, likewise, selling in the open market may be very advantageous at times, if this object is particularly sought to be attained. I must add that the Reichsbank operated very skilfully last year in disposing of the bills in such a shape that they succeeded in getting abroad, and that the prevention of a still more considerable exportation of gold was achieved by the adroitness with which these operations were conducted. In spite of such isolated instances, I can not help regarding the method hitherto pursued by the Government as not in consonance, as a matter of principle, with the Reichsbank's function of regulating the circulation. The practice prevails in England, also, that the Bank of England participates in the purchase of exchequer bills, when its condition or the situation of the money market makes it seem advantageous; but otherwise it leaves the initiative here, too, to the private market.

Herr Geheimrat Wagner expressed the wish that we might in increasing measure revert from the system of *rentes* to the system of fixed repayment of debt obligations at par. He also directed attention to the question whether it is advantageous to have in circulation such a large quantity of treasury bills that run for a number of years. I believe that precisely in the administration of the Empire, as well as in the banking circles, which are likewise responsible for the issuance of these treasury bills, there was less predilection for this method of raising means to meet the needs of the Empire than anywhere else. But it was a time of stress, for if they had not been issued the *rente* market would have had to bear a still heavier burden. Only the perception that the needs were too great to be provided for in the *rente* market alone, that other monied circles besides that of the *rentiers* had to be drawn in to satisfy them, led to our having—I hope only temporarily—so large a sum of treasury bills afloat. The long-time loans, with definite dates of expiration—that is, those on the allotment plan—constitute another form of *rente* debt which some creditors of the Empire would perhaps rather have than *rentes*. To that extent this method, too, may not be impracticable in future operations. When very great sums are required the greatest variety of tastes must perhaps be taken into consideration. I ask myself whether we might not have another method, corresponding to some tastes and needs, in the sale of annuities. This particular form, to be sure, is desirable only in exceptional cases in Germany, where more importance is attached to the maintenance of one's capital than in other countries.

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Doctor WACHLER. The question whether it is desirable to effect a diminution of the demands upon the Reichsbank, I would, on the strength of our experiences up to this time, answer in the negative. The reproach has been brought against the Reichsbank that the managers of some of the Reichsbank establishments have, in granting credits, passed beyond the sphere of their proper functions. Herr Fischel has just made a remark, too, which I think is fully justified—namely, that the Reichsbank would be committing an error if in times when money is abundant it should discount imperial treasury bills and thus provide business with currency which it really does not need and which, therefore, would react upon the rate of private discount. But it has likewise been pointed out, even by opponents of the management of the Reichsbank, that such operations have been recognized as erroneous by the Reichsbank, and that provision has been made that transactions of that kind shall not in future occur on such a scale, or perhaps not at all. But though it has been recommended by the experts that the Reichsbank should on principle reduce the credit demands in normal times by from 100,000,000 to 300,000,000 in order to lessen the difference between the minimum investments in normal times and the maximum investments in times of tension; and though it has been asserted further that the Reichsbank is not obliged to satisfy all the legitimate credit demands made upon it, that the augmentation of our unfavorable balance of payments is directly connected with the increase of uncovered notes, that the tightness of money in the year 1907 is attributable to the

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credit policy of the Reichsbank, and that the Reichsbank should be more intent upon guarding its gold supply than upon discounting bills, I have to say that in general I do not assent to these views. I consider the reasons given for these assertions as partly erroneous and in many respects, at any rate, as inapplicable. I can not regard it as right that in normal times legitimate demands should be rejected solely for the purpose of diminishing the maximum tension reached in times of great stress, for I take the view that, after all, it is the normal conditions that are preponderant in our times, and it is not really acting wisely to reject such legitimate demands merely in consideration of the possible occurrence of exceptional circumstances. I believe, also, that the hoped-for result would not be achieved by that means, for it is quite beyond doubt in my mind that if the Reichsbank had actually discounted 300,000,000 marks' worth less of bills in 1904 or 1905 and had had correspondingly less notes in circulation the demands in the years 1907 and 1908 would not have been diminished by 100,000,000. But I consider it an absolutely false impression that the credit policy of the Reichsbank in 1907 caused the stringency of that year; it was occasioned by entirely different circumstances.

I am, on the contrary, of the opinion that the year 1907 furnished the most brilliant proof that, notwithstanding our undeniably strenuous spirit of enterprise and notwithstanding the greatly increased development of our home industry since 1904, our whole German economic life rests upon a thoroughly healthy basis—as we see already to-day it has substantially overcome the threatened dangers

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of 1907 in a perfectly normal way, without any mishaps—and that the management of the Reichsbank in particular has stood the test and has, besides, succeeded in providing itself again to-day with a considerably greater supply of gold.

I have arrived at the conclusion, therefore, that the results of the management of the Reichsbank up to the present time, and especially the events of the years 1906 to 1908, do not justify the Reichsbank—except in the case of the improperly granted credits which have been mentioned, and against which it has of its own initiative made provision—to endeavor to restrict, on principle, its allowance of credit in normal times. Neither do I believe that it would be expedient to reduce the granting of credit by the Reichsbank to any sort of scheme, as Freiherr von Gamp seems desirous to recommend. I consider all schemes and special instructions as quite worthless to a competent management; they can not take the place of prudence and intelligence, and they have a deleterious influence if they trammel a capable administration of business. I feel convinced that, in view of all that has hitherto been done by the Reichsbank, it will of itself, without any special instructions based on the suggestions of the experts as to the conduct of its affairs, give proper consideration to everything calculated to prevent a recurrence of any errors which may have been made in the matter of the granting of credit. But what I should regard as most inexpedient of all is the systematic limitation of credit demands at the quarterly periods.

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As to the question of shifting the times of payments which are customarily made at the close of the quarter to other dates, the following points should be noted:

1. That the practice of concentrating payments such as rents, interests, and salaries upon definite dates and at the close of the quarter was not established arbitrarily, but was deliberately adopted for business reasons and expressly for the purpose of facilitating the making of money payments.

2. That a great number of payments—for example, those of all the great mortgage-debenture institutions—are made as early as the middle of the last month of the quarter, and the interest payments on all agricultural mortgage debentures from the 24th of June and the 24th of December on, and that the payment of interest on state loans likewise takes place before maturity.

3. That in the case of some obligations the date of interest payments is already fixed at other times than the close of the quarter.

If, then, a further shifting of the times of maturity were attempted, the relief which might perhaps be obtained at the quarterly periods would lead to the intensifying of credit demands at other times, and the Reichsbank would not be benefited in any way. But it might well be that the advantages in the way of adjustment of the circulation which arise from the concentration of definite regular expenditures and receipts upon definite days might thus be forfeited; and, at all events, the Reichsbank can not attempt to suddenly and brusquely change a practice which has become general

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by force of long and justified habit, through a restriction of its grants of credit.

And just as little can an increase of the cost of loans on collateral be justified or approved. If the idea is to make it the duty of the Reichsbank to distinguish between so-called legitimate and illegitimate demands, with the object of making it easy to satisfy the legitimate demands while entirely rejecting the illegitimate ones or satisfying them only upon harder conditions, then it must be acknowledged that, in themselves, the demands made upon the Reichsbank at the close of the quarter may claim the character of legitimacy.

It is with justice, then, that the experts, almost without exception, advise against a limitation of credit at the close of the quarter, and also against increasing, by any method, the cost of loans on collateral; on the contrary, precisely in the case of loans on collateral, shorter time was recommended in the interest of a rapid improvement in the condition of the Reichsbank. In recognition of the importance of facilitating the transactions of the quarterly periods, suggestions were made by many of the experts to make borrowing on collateral in some respects easier than it is. One proposition was to lower the rate of interest in the case of loans upon state securities, and perhaps also of loans on other first-class paper; another proposition was to permit the entering of such preferred loans as cover for bank notes in the Reichsbank statement. It was also suggested that the limit of untaxed note circulation should be made higher for the week in which the quarter day occurs.

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I am glad to find that Herr von Gamp also is more inclined at present to recognize the increased demands upon the Reichsbank at the quarterly periods as a necessity arising out of the business requirements of the people. I think, too, that it will be least of all possible to diminish the demands upon the Reichsbank at the close of the year, since according to all our usages and according to the economic arrangements which obtain with us as regards the close of the year it is inevitable that the demands will always be somewhat greater, taking into account, too, that Christmas comes at this time. It is natural that at such a time ready money, which, after all, comes from the Reichsbank, will be needed in greater quantity; and it will be a difficult matter to introduce different habits in our economic life.

All these propositions should be subjected to a searching examination by the Reichsbank. For the rest, an extension of the deposit-and-transfer system will presumably have the effect of very materially relieving the Reichsbank in the matter of demands upon it at the quarterly periods; and in regard to this, likewise, some very valuable suggestions were made looking to the introduction of that system in connection with salary, rent, and other payments.

The policy of effecting a reduction of the demands upon the Reichsbank through the restriction of the demands of the Imperial Government for credit ought, as the experts all agree, to be resorted to only on the plea of absolute necessity.

It could be accomplished, of course, only by means of the strengthening of the working resources of the Imperial

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Treasury. This is, however, precluded by the present financial situation of the Empire. For if it could be done without the necessity of making demands upon the Reichsbank or, what would amount to the same thing, the money market, it would have to be effected by means of the surplus revenues of the Empire. But this is something on which, for the time being, we can not reckon. The issue of a loan for this purpose or the utilization in some way or another of the war fund in the Juliusturm, which has been suggested by some of the experts, can by no means be advocated. It is to be hoped that through rigid economy in the imperial administration and a judicious adjustment of the system of taxation the finances of the realm will be placed in such a condition that the working resources of the imperial treasury will be reenforced in the measure demanded by the needs of government through the surplus realized in the financial administration of the Empire.

The procedure hitherto adopted in the issue of imperial treasury bills is universally acknowledged to be sound and not calling for any fundamental alteration. The suggestion made by some of the experts that the Imperial Treasury might, following the example set by the English "tender system," call directly upon the public for subscriptions, does not impress me as being practical. A miscarriage in such a case, a failure made publicly manifest, would have a most mischievous effect. It would seem, on the other hand, very desirable to adopt the suggestion, likewise coming from the experts, that when there is an issue of treasury bills arrangements be made for supplying these at all the banking institutions in the

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Empire in the forenoon of the first week day following the placement of the issue at the Bourse, and that those interested be informed in advance, as far as circumstances permit, of the prospective issue, in order mainly to afford an opportunity for the sale of the treasury bills in foreign countries, which may be desirable at times for the sake of depressing the rate of exchange and making money cheaper.

I believe that, on the whole, especially with reference to the question of credit—as has been repeatedly stated in an emphatic way by the experts and members of this commission—apart from a few rather insignificant mistakes, mistakes easily remediable and of a technical nature, the conduct of the Reichsbank has during all these years, including the year of the crisis, 1907, stood the test in such a remarkable manner that we can not venture to propose any fundamental organic changes and can only deprecate the adoption of any legislative measures tending to hamper its activity and make it more difficult for it to adhere to a judicious policy based on the business principles which it has hitherto observed.

Mr. PETER. I must begin by expressing my opposition to an artificial restriction of the legitimate demands for credit, and, indeed, according to the declaration with which the president has favored us, the Reichsbank itself has no intention whatever of placing obstacles in the way of the satisfaction of legitimate needs in the matter of credit, something that would not be at all desirable. The manner in which the Reichsbank attends to the existing regular needs in this regard and its own conception of the nature of the obligations devolving upon it, as expressed

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in the now familiar instructions sent to the branch offices, appear to me altogether proper, and I should not like to see any change in them.

As I have already said in connection with Question IV, I anticipate a very material improvement in the working of our monetary mechanism as a result of the judicious development of the system of payment by checks and transfers, and along with this a considerable reduction of the demand for cash at the quarterly periods.

I therefore attach no particular significance to the question: "What measures might be taken to cause a spreading out of the quarterly requirements by altering the time of payments (mortgage payments, salaries, rents), which traditionally fall due on the first day of the quarter?"

It is certainly an advantage if coupons and the like can be cashed several days before the quarter day at which they mature, or before whatever date has been fixed for the payment of interest in the case of issues of new securities. Whatever can be done in this direction is that much gain. But to go away beyond this and try the scheme of deferring the regular dates of payment I should regard not only as useless, but, on the contrary, as positively detrimental. There is, indeed, to my mind an advantage in having payments of all kinds take place simultaneously at certain fixed times, as we are thereby enabled to set one payment against another, as in a clearing system.

With respect to mortgage transactions, the suggestion made by one of the experts in regard to certified checks—checks certified by the Reichsbank—strikes me as very

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practical. I should like to ask the direktorium of the Reichsbank whether it might not be worth while to consider the question of reintroducing the so-called "distance checks," which were in existence for a short time only, a number of years ago.

I am opposed, for the reasons adduced by Doctor Schmidt and others, to the proposition that the getting of loans from the Reichsbank at the quarterly periods be made a matter of greater expense by increasing the number of days for which interest is to be paid.

The demands for credit at the quarterly periods are legitimate. I believe that it would be a great pity to impose a special toll on them and that there is no occasion for it. I am likewise able to assert that the money borrowed on collateral by financial institutions at the quarterly periods is often procured merely out of precaution and not used. I should, on the contrary, be in favor, with reference to this matter, of returning to the procedure that formerly obtained but was afterwards discarded, a lowering of the rate of interest on loans where the collateral consisted of imperial or state obligations to a figure one-half of 1 per cent above the discount rate of the Reichsbank. I am of opinion that such securities, serving as collateral, could be reckoned as part of the reserve against bank-note issues.

A restriction of the demands for credit on the part of the Imperial Government is certainly desirable. It could be brought about in no other way, it seems to me, than by the creation of a more ample working fund for the Imperial Treasury. Perhaps the fiscal reform in the Empire will effect a change for the better in this respect also. Until

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then, however, the Imperial Government will be obliged to have recourse to the Reichsbank, which, in my judgment, is its natural reservoir of money.

I likewise consider a change with respect to the issue of treasury bills undesirable. Even if it may not on every occasion suit the Reichsbank to take these treasury bills, their acquisition, on the other hand, for the purpose of rediscount affords at certain times the sole possibility to the Reichsbank of asserting its influence in the matter of private discount. It would make the periodical statements of the Reichsbank more easy of comprehension if the treasury bills were entered separately.

Mr. MOMMSEN. In regard to the treasury bills, gentlemen, I believe that the item "securities" in the statement of the Reichsbank represents in reality nothing else than the imperial treasury bills, with the exception of an insignificant fraction in the way of securities, which need not be taken into account here. In what concerns the question under discussion, I believe, we may gather from the trend of the debates we have just had that this question has perhaps not been altogether properly put, at least in so far as it has reference to the restriction at the quarterly periods. We have not to deal here in reality with a restriction of the demands for credit at the quarterly periods, but with the restriction of the demand for cash, be it bank notes or anything else, which business has, so to say, got into the habit of needing at the quarterly periods. We all seem to be agreed that the restriction of the general demand for credit is something which it would be inexpedient for the Reichsbank to undertake except in so far as we have to deal with demands

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which all of us, together with the Reichsbank, look upon as not altogether legitimate.

In regard to the shifting of the quarterly dates of payment, there is no doubt that a large part of the money that is withdrawn from the Reichsbank goes to various branches of the Bank that need it in order to provide for payments which they will be called upon to make. Much of the money paid out by them stays in the coffers of the branches, and probably very considerable amounts that are thus withdrawn remain in the vaults of the Reichsbank itself, for I assume that at the quarterly periods the individual sums on deposit at the various branches are relatively large, owing to the fact that there is a great need of cash at those times. I do not believe that under existing conditions it would be possible to alter the situation permanently. It is pretty well settled that there is bound to be an extensive circulation of cash at the quarterly periods, and I do not consider it so very desirable, gentlemen, to shift all payments, or even very much of them, to other days.

It has been pointed out long ago that the concentration of payments at certain fixed dates facilitates what we are all anxious to have—the method of settlement by placing one amount against another, a system of clearings. But it has this further advantage, that it makes it easier to form an opinion regarding the economic situation in general. Suppose we actually succeeded in having twelve principal times of payment in the course of the year instead of four, what would be the result, gentlemen? The demands upon the Reichsbank would be somewhat greater throughout the year, and the stress which we now

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witness at the quarterly periods would perhaps be somewhat less pronounced. I should not consider this such an extraordinary gain, and I believe, on the other hand, that the raising of the rate of discount on account of the temporarily increased demands upon the Reichsbank at the quarterly periods practically never takes place.

When the general demands upon the Reichsbank are pretty high, there is bound to be, of course, an unusually great demand for ready funds of one kind or another, as everyone feels that without some sort of a cash reserve it is impossible to meet the exceptional demands at the quarterly periods. But this in itself has nothing to do with the pretty nearly invariable demands at the quarterly periods. I actually believe it would be well to accustom ourselves to the fact that the Reichsbank, in the nature of things, is bound, just like every other financial institution, to have exceptional demands made upon it. These things always straighten themselves out in a short time.

I have already stated my opinion with respect to the matter of the shifting of the quarter days. It is impossible to transfer the dates on which payments are due in the case of mortgages, rents, coupons, etc., to some other day than the first of the quarter. Our attention has been called to the fact, gentlemen, that in one or two of the south German States—I believe reference was especially had to Württemberg—the interest on government loans is no longer paid at the quarterly periods, the coupon days coming at various other dates. I doubt whether there is any advantage in this scattering of dates and deviation from ordinary usage. It is natural to be skeptical about

it if we assume once for all that the interest on permanent loans, whether they represent obligations of the Imperial Government, the individual States, the municipalities, or industrial concerns, has got to be paid at the quarterly periods only. It would be a great nuisance to the public if we should have twelve days on which such payments are due instead of four, as now established by the law of custom.

Another question that has been brought up is as to whether it would not be practicable to shift the dates at which salaries, especially the salaries of officials, are paid to the fifteenth of the month. I have no objection to their being divided into twelfths (which is natural) instead of being paid out at four quarter days. In all private concerns, in banks, in factories, and the like, salaries are, as a matter of fact, paid monthly. Why can this not be done in the case of public servants also? The transition would naturally be accompanied with more or less inconvenience, owing to the fact especially that officials are paid in advance and private employees behindhand. We are, however, just about to institute a great advance in the salaries of officials, and it will perhaps be found practicable on this occasion to make the economically desirable transition from quarter days to monthly payments. I anticipate, in point of fact, that the whole thing will have a wholesome influence. I am not overlooking the fact that there may be some little trouble in connection with the payment of rent, but then this will only be in the course of the transition, for the officials of the States and of the Empire can just as well be required as the employees of private individuals to deal with their monthly earnings in

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such a way as to remain in a position to pay their rent. It is worth while to consider seriously whether it would not be well to make this change in connection with the raising of the salaries. The period of transition might be extended to one year or possibly two years.

Geheimrat Wagner referred to the demands upon the money market made by the Government through the issue of securities at the quarterly periods. I did not understand him, for I believe that what he said is not at all correct. Of course the issue of large volumes of securities is often timed with reference to the quarterly periods, but the result is different from what Herr Wagner imagines.

Mr. FISCHER. The term "*emission*" was used in the sense of "issue of bank notes."

Mr. MOMMSEN. In any case this can be cleared up, and I do not care to go into the matter any further.

Question A is herewith also practically answered, to the effect that the borrowing of money on collateral ought not to be made more expensive. I believe that the gentlemen who have expressed the same view are quite right in asserting that the money flows back comparatively fast. At the same time we ought not to lose sight of the fact that people are often in the habit of keeping securities—I have special reference to south Germany—for the sole purpose of creating for themselves a sort of reserve in order to be enabled at a time of special stress to obtain a loan on collateral. It would be a pity to discourage this habit by making such loans more expensive.

Geheimrat von Gamp, in the course of his utterances—led, I assume, by the wording of the question relative to

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the restriction of the demands of business for credit—set up a contrast between the Reichsbank and the private banks. I hardly think that such a contrast is actually warranted. I am glad to see that he recognizes the fact that the granting of short-time credits by the Reichsbank at the quarterly periods is useful and necessary. I believe that if he will weigh carefully everything that has been said on this subject in our discussions he will come to the conclusion that the exceptions which he made to-day in the case of interest payments, rent, and mortgages ought to apply also to short-time promissory notes. These short-time notes which the Bank has to deal with at the quarterly periods make their appearance only in order that its customers may get the money required for interest payments, rent, or I know not what. I can not see how else Herr von Gamp would have it. As a matter of fact, this is the only means of affording the public which in the main makes up the clientèle of our German banking world—for the direct customers of the Reichsbank are, after all, only the business men; as a general thing, at least—the possibility of making these payments. In my opinion, therefore, there can be no objection whatever to the making of demands upon the Reichsbank through the intermediary of short-time promissory notes.

Herr von Gamp made a suggestion in regard to which I wish to express my unqualified dissent. He is of opinion that while the Reichsbank ought, indeed, to grant credit, it might make it a condition in individual cases that it is not to be called upon to do so during the period, say, from December 15 to January 15. I believe that this is a very unsound bit of advice that Geheimrat

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von Gamp is giving us. If we were to act in this way with reference to the private banks, he would, I am sure, attack us, and would justly say that this way of doing business is calculated merely to veil the condition of the bank from the eyes of the public. [Protest.] Of course, I have a right, as a dispenser of credit, if someone comes to me and says he would like to have credit, let us say, from July till November or the middle of December, to think the matter over and to tell him: "Yes; I can let you have the credit; here is the money;" and if he asks for credit up to the middle of January, to tell him he can not have it. But if a bank should say: "I shall let you have credit right straight along, only you must let me have my money again just for this short space of time"—never mind in what precise words he would put it—I should consider it a very serious matter; and I do not believe that the Reichsbank would find it at all in its interest to enter into any such arrangement. My opinion is that the Reichsbank should grant credit only where it can discount with perfect safety, without being reduced to the necessity of entering into some kind of an agreement, be it with respect to the time for which the credit is afforded or to some special security. I am aware that it has often happened that collateral in the way of stocks or mortgages or the like has been offered in connection with bills. I believe that this sort of thing ought not to enter into the business of the Reichsbank. The Reichsbank ought simply to take the bill, find out whether it is safe, and accept it only if it is good. A good bill needs no security. Such transactions border on the business of making loans on

collateral, to which kind of security Herr von Gamp himself ascribes a lesser degree of fluidity.

So far as the other question is concerned, there is nothing special to say about it. It is, in point of fact, indeed, an unheard-of situation, which we have had in an increasing measure year after year; that the Reichsbank should have in its possession a very considerable amount of imperial treasury bills and that the Imperial Government should be a debtor of the Reichsbank. Herr Fischel is perfectly right in saying that that means nothing else than obtaining funds by means of paper money. It is monstrous, the way the figures have been going up from year to year, and I believe that 1908 is going to break the record, for I can not recollect any such total as 280,000,000 marks—which was the figure given in the last statement—or was it even more? I consider the situation sadly in need of improvement. I can not, for all that, be made to believe that it would be well to have the Government go to some other financial institution, inasmuch as such institution would be obliged to have recourse to the Reichsbank, and I think, as a matter of fact, we had better wait for the reforms that have to be undertaken in our fiscal affairs.

In regard to the issue of imperial treasury bills, this may be said: If the amount of these treasury bills which the Reichsbank has to deliver is not very large, then the issue is a very simple matter; but if we have to deal with such figures as we have at present, I can not see that the scheme suggested by Herr Fischel—which in itself I consider perfectly legitimate—of making it a part of the Reichsbank's business to buy and sell treasury

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bills would do any good, for if the issue is excessive, there is nothing left but for the Reichsbank to keep the bulk of these securities. I believe, as a matter of fact, that the greater part of the issue of these treasury bills is not placed on the market by the Reichsbank but is covered by its own resources.

As regards the effect and necessity of the possession by the Reichsbank of a stock of imperial treasury bills that should enable it to exert an influence upon private discount, I do not believe that any special significance is to be attached to the matter. If you will take the trouble to refer to the statement on page 6 of the Reichsbank statistics, you will find that there was formerly often such a small amount of treasury bills on hand that no effect could possibly result from it. I believe, therefore, that such a stock is not absolutely necessary. In any case the question will cease to have any significance as soon as the Imperial Government finds itself in a position to attend to its own needs, when various matters, which anyhow have to be considered, will have to be dealt with, in particular the system of payment by postal check, if it should go on developing, which I sincerely hope, although I have my doubts. If it should assume large dimensions, however, it would undoubtedly place considerable sums of money at the disposal of the Imperial Treasury, which would serve the purpose of a working fund. At present the post-office, all in all, draws money from the Imperial Treasury, as it has to make the large advances to the trade cooperative associations. The whole thing can be changed only through a general improvement of our mechanism of payment, as has already been intimated.

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Mr. GONTARD. I agree with Geheimrat Riesser with respect to the following questions: With respect to loans on security, especially in so far as short-time loans are concerned. How far it is possible to go in the matter of loans on security has been well put before us by Herr Schinckel with reference to coffee. Furthermore, in the matter of reckoning the security for loans as part of the reserve against note circulation, we should have the same story with respect to government loans as we have seen in the case of the treasury notes. Moreover, in the matter of the regulation of the demand for credit and currency at the quarterly periods, the only apparent remedy being the extension of the deposit-and-transfer system of payments. Furthermore, in the matter of the correlation of the demand at the quarter periods; in that of the postponement of the quarter days in the case of mortgages, rents, and salaries; and in that of making loans on collateral dearer at the quarterly periods, with respect to which I agree with Herr Fischel that the making of loans on collateral ought to be in the nature only of a reserve business for the Reichsbank, and with Geheimrat Lexis that the prolongation of the term of days is equivalent to a prolongation of credit. In regard to Question B₁, I hold the same view as the gentleman who has just had the floor. I should like to say in addition that a diminution of the demands upon the Reichsbank can take place only with respect to a class of transactions that are not within the legitimate sphere of the bank. My apprehensions in regard to this matter have been allayed by the declaration made by the president of the Reichsbank day before yesterday with reference to the assertions of Kommerzienrat Fischer, by

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the expression of opinion on the part of the bank management in connection with the instructions of August 12, 1906, and by the declaration of Geheimrat Kauffmann with reference to the statements of Doctor Salomonsohn in the matter of remittances in connection with the import business.

In regard to the matter of securities as collateral, I am of opinion that the rate on loans ought to be lower when the collateral consists of government securities than in the case of other securities. I am surprised that the proposition has not come up in this commission to follow the example of Belgium. I should like to urge, however, that all other kinds of securities be treated absolutely without any distinction. If there were any gradations, we should find ourselves making discriminations in regard to the various classes of the population. It has been maintained with perfect truth that the other kinds of securities can only be benefited by the favorable terms for loans on government-paper collateral by reason of the attraction which the quotations of one class of securities exercise with respect to the quotations of another. I should like to add that I think it would be a good plan for the members of the Reichsbank directorium to arrange to have periodical meetings with the heads of great industrial establishments in the various principal centers in order to discuss the matter of the probable demands for credit. I do not agree, however, with the view expressed by one of the speakers that it would be well to prescribe certain conditions in dealing with these capitalists, my idea being that the whole thing should be done only in behalf of the information which

would be placed at the disposal of the Reichsbank. Those who are directing our great industries will be quite ready of their own accord to defer as far as possible to the wishes of the Reichsbank direktorium.

But I must come to a close, gentlemen. In the course of our discussions I was greatly surprised by a remark made by one of the experts to the effect that it would be a mistake to dispose of treasury bills abroad on account of the profit that the foriegner would make and the bad impression that would be created in the outside world in regard to our credit. I must say that the opinion of the world certainly depends on other factors than the thing in question, and I wish to take advantage of this occasion to revise an opinion which I expressed in this body at the outset. It is the notion that we ought to lay the greatest stress upon the opinion of the outside world with respect to matters pertaining to our system of credit. I am under the impression that our banking circles pay more regard to the opinion of the world at large than is necessary. I believe it would not hurt our banking world to take an example in a small way from the daring of our greatly despised industry. I am highly pleased to see that in another field the banking world has begun to follow the lead of industry, which has adopted the policy of organizing a union for the purpose of securing immunity from injury in its domain. I fervently hope that our banking fraternity will succeed in developing this policy and thus contributing to the public good.

Mr. ROLAND-LÜCKE. It is, and is bound to remain, one of the main functions of the Reichsbank to satisfy

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the demands for credit in so far as such demands have a sound and legitimate basis and involve only short-time advances of money. It will be enabled to perform this task the more effectually the less it is compelled to cater to the needs of those who demand credit where there is no economic necessity for it. It is admitted on all hands that it is good and necessary for various reasons that obligations should largely mature at certain principal dates. In regard to the extent that the demand for currency to meet the obligations maturing at such dates may be reduced, so many suggestions have already been offered to the public that we might as well wait and watch the gradual operation of the schemes proposed.

In regard to the specific suggestions that have been put forward here, to the effect that the concentration of payments at certain dates should be lessened by the shifting of the dates of maturity in the case of certain classes of payments involving large amounts, many reasons in their favor can certainly be adduced. I believe it is practicable, while preserving the beneficial effects of this whole system of concentration of payments, to alleviate in a measure the difficulties encountered. It is undeniably of great advantage to have this concentration take place at a few quarter days, so that the date of maturity of one kind of obligation is connected with that of another. And in normal times, indeed, we find that this cumulation of payments causes comparatively little trouble. In a time of stress, however, it is calculated to add materially to the difficulties arising from other sources. [Hear! hear!] It is my opinion, there-

fore, that we ought to adopt some middle course. For this purpose I am singling out the matter of the payment of the salaries of our government officials, national and municipal.

I believe that if we could get hold of the figures we should find that we have to deal with a very considerable sum involved in payments of this kind throughout the length and breadth of the German Empire, and that perhaps the fact of their being made on the first of the month constitutes an important co-factor in the extraordinary demand for currency at the quarterly periods. The reason for my dwelling just on this matter of salaries is because I anticipate a twofold effect in regard to the Reichsbank in case a change with respect to the date should be made. Not only will it be relieved from the necessity of meeting a large part of the demands now directly made upon it already at the end of the month for the payment of salaries due on the first, but the shifting of the date will save it from calls involving a much larger aggregate sum. If the payment of salaries takes place on the fifteenth, it will, to be sure, as the speakers here have already pointed out, cause more or less mischief in individual cases, where the official will be unable to resist the temptation to spend money that ought to be set aside for the first of the month. We ought, however, not allow ourselves to be guided by this aspect of the matter. If the salaries were to be paid on the fifteenth, as is already extensively done in the case of private businesses, these funds would soon be moving on in various channels and by the end of the month would already have served so largely to replenish the treasury

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at a large number of branches that the demands which would otherwise have been made by them upon the Reichsbank at the end of the month would in the main have been satisfied. I am not quite sure that my reasoning is perfectly clear to you. What I mean to say is, that, in the first place, money is paid out directly by the Reichsbank at the end of the month on account of the payment of salaries due on the first, and, secondly, sums are withdrawn from the Reichsbank at the end of the month in order that the necessary funds may be at hand at so and so many establishments and offices of every kind where money has to be paid out immediately or on the first—money that has nothing whatever to do with salaries. If the sums paid out in salaries are started on their course by the fifteenth, they discharge their function in the normal and regular circulation by pouring into the treasuries whose needs would otherwise have to be met by demands, direct or indirect, upon the Reichsbank. I am, therefore, sure that the Reichsbank will be relieved directly or indirectly from the necessity of paying out a considerable amount of cash at the end of the quarter if the officials of the government and the municipalities, and possibly in course of time most of the employees in private concerns, are paid their salaries on the fifteenth of the month. It seems to me that by thus setting apart the salaries we shall not be complicating the questions relative to mortgages, interest payments, rent, etc., and that the carrying out of my proposition would result in any case in a very advantageous reduction, with reference particularly to a time of stress, of the volume of cash required for our monetary circulation.

B a n k I n q u i r y o f 1 9 0 8

As regards the question of increasing at the quarter's end the number of days for which interest is to be paid, I hardly think it would be practicable to get up a recipe that would work for any considerable space of time. The Reichsbank has certainly no occasion to inveigle itself, so to say, into trying to create artificial business on the strength of the demand for money at the quarterly periods, but it is its duty to satisfy all legitimate demands in an accommodating manner. I believe that the conditions which the Reichsbank imposes now in the case of questionable advances are precisely suited to the existing conditions. I am not in favor of moderating them, neither should I make a change in the other direction. The state of things, I am aware, may change some time or other. It will then be the business of the Reichsbank to adapt the conditions to the altered circumstances, just as it has done many times before.

In regard to the restriction of the demands of the Imperial Government, there seems to be a general consensus here that the Imperial Treasury must have its own working resources, which it needs for the economic and efficient conduct of its business. This state of things, which, I trust, will be realized before long, should, however, in my opinion, by no means prevent the Reichsbank from being free to obtain from the Imperial Government in successive amounts short-time treasury bills, running three months or six months, according to the convenience of the Reichsbank, up to an aggregate, say, of 100,000,000 or 150,000,000 marks. This is not to be, however, when the Imperial Administration is in need of money ["Very true!"] but

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when the Reichsbank considers that it is of advantage to itself to have the treasury bills in question at its disposal.

It may be objected, to be sure, that the imperial administration can not be called upon to throw away interest on money that it does not need. This objection may be met by the twofold consideration that part of the interest earned by the Reichsbank returns to the Government and that it gets back the remainder in an amplified form, in addition to its revenues resulting from the benefit derived by the business community from the judicious disposal of these bills by the Reichsbank. I regard the money thus expended in the way of interest as a useful seed which may occasionally yield tenfold fruit. I would therefore recommend that the Reichsbank be given the right to take at its pleasure at any time imperial treasury bills at from three to six months up to the amount of 150,000,000 marks. I think that the Reichsbank ought at all times to have this weapon at its disposal in case circumstances call for it. As to whether it should sell the bills on the Bourse or should adopt some other method of disposing of them as more expedient, we can not to-day set up any regulations on that point. It may, and often will, be proper to make use of the Bourse for the purpose of influencing the rate of private discount, but it may also at times, for various reasons, be the right thing to choose some other way leading indirectly to the end. Which method is to be chosen will of course have to be decided, when the occasion arises, by the Reichsbank management.

The long-term treasury bills, running for several years, have been issued, I take it, only in times of considerable

difficulty, and it is to be hoped that such situations of difficulty will but seldom arise.

Mr. KAEMPF. Gentlemen, I do not think I have much to say on the question of bringing about a diminution of business demands for credit, especially at the quarterly periods, or, as it is put in the question sheet, "What measures might be taken to cause a spreading out of the quarterly requirements by altering the time of payments which traditionally fall due on the first day of the quarter?" For my part—and I have repeatedly explained this already in the course of our proceedings—I do not at all regard the Reichsbank as being, in the first instance, a credit institution ["Quite right"], but solely designed for the purpose of regulating the country's monetary circulation. But if this is so, there can be no talk at all of such a thing as supposing that the Reichsbank is called upon to satisfy all legitimate demands of credit. On the contrary, I insist on the limitation that it is called upon to satisfy even the most legitimate demands for credit only in so far as its duty to redeem its own notes permits. Hence there is no room for the idea of asking the Reichsbank to place working capital, not to speak of investment capital, at the disposal either of commerce, or industry, or agriculture. In this respect I differ fundamentally with our colleague, Freiherr von Gamp.

Nor do I believe that the proposition which Freiherr von Gamp has made can lead to any practical results—namely, the proposition that applicants for credit should be induced to place the first date of maturity of the bills which they discount at the 15th of December instead of the

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1st of January and then on the 15th of January to apply for credit again. Here the question arises, What is actually to happen during the gap between the 15th of December and the 15th of January? ["Very true."] If for this period the credit in question is not obtained at the Reichsbank, it must be obtained somewhere else, and as a result the Reichsbank would be placed indirectly under precisely the same burden as if the demand had been directly satisfied by it.

As regards the question whether a distribution of the needs of the quarter, so that the times of payment shall fall at various dates, is necessary and practicable, I can only say that it is most urgently to be desired that such a distribution should take place. I, too, am of the opinion that salary payments might very well be made on the 15th or 20th of the preceding month, instead of on the first day of the quarter. Salaries, rents, and interest on mortgages are all very closely connected. But if it is desired that these three elements work out a balance by way of the transfer system then it is not right that they should all three be set for the same day, for, if they are, a balancing of accounts can hardly be effected—or at least only with the greatest difficulty. If the official receives his salary on the 30th or the 1st of the month, if he has to pay his rent on the 1st, and if the rents are used by the landlord in order to pay interest on his mortgage, then there is hardly any time for accounts to be balanced. On the contrary, the payments in question *must* be made in cash. ["Very true."]

On the other hand, if the salaries are paid earlier, then at least that part of the salary which is to be used for

paying the rent can be handled by the transfer method, and thus the use of cash can be avoided. The case would be the same with the relation of rents to interest on mortgages. At least I see no way, under present conditions, of accomplishing this object without some such change.

As for the regulation of mortgage moneys, which now all fall due on one and the same day, efforts are being made—and they have met with some success—to institute a mortgage clearing house here.

Before we can determine whether it will be possible to shift the bourse payments from the 31st of the month to a later day—to the 3d, 4th, or 5th of the following month—very exact investigations must be made. I believe they are already being made, but have not yet come to a head. I merely wish to call attention to the fact that there exists a very close connection between the bourse payments and the payments of mortgage money, and that it is a debatable question with what degree of promptness the latter can be attended to if the bourse payments are shifted to a date later than that on which the mortgage money has to be paid.

Gentlemen, the question of whether the cost of borrowing money on security should be increased at the quarterly periods, I can not answer in the affirmative. The result would be merely that in place of demands for short-time loans—and the shortness of the time is precisely the important consideration in the matter of redemption of notes—there will be demands for long-time bills; for if the borrowing of money on security for a short time is too dear, then the borrower will present long-time bills.

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Question B, as to whether the demands made for credit by the Imperial Government should be diminished, can be answered only in the affirmative. This question, indeed, will receive a partial answer in the reform of imperial finance; for the moment the finance reform is put through the demands made by the Government upon the Reichsbank will vanish, or at least will be fewer than they have been. However, I agree with Herr Roland-Lücke that it is not by any means advisable for us to give up entirely short-time imperial exchequer paper, which has more or less the form of bills. I think that not only does the train of thought developed by Herr Roland-Lücke have weight here, but also something else besides. I am of the opinion that if the Reichsbank is in the possession of short-time imperial exchequer paper, or has such paper at its disposal, this too will be a means of its being able, on occasion, to draw capital from abroad temporarily into this country, and I think that this consideration should not be left altogether out of account.

As for the interest-bearing treasury bills that are drawn for a term of four or five years, I think that if the Imperial Treasury is found to need larger working resources, it might be very well to adopt the plan of issuing four or five year treasury bills and in this way securing the necessary working resources for the treasury—a method which might in some cases even be more desirable than the sale of nine, six or three month treasury bills to the Reichsbank.

Herr Geheimrat Wagner has raised a question to which I should like to turn back for a moment. He asserted that it is not only the needs of the imperial treasury for working capital that have to be considered, but also the

need of having a cover for imperial silver coin and imperial treasury notes. So far as imperial silver coin is concerned, my view is different from that of Herr Geheimrat Wagner. I am of the opinion that imperial silver coins should not be put into circulation to a greater extent than trade is willing to accept them and retain them, but that in so far as trade does retain them there need not be a gold cover for their redemption. [Quite right.] But, of course, if it should be our desire to force more silver into circulation than the community wishes to take, then the situation would have a different color, and we should certainly have to make sure that there be a gold cover for this additional silver.

I shall not enter just now into the question of whether it is desirable to issue consols or repayable loans. Reasons may be assigned for both. In general, my position is that we should issue consols, and that it is not necessary to employ the means of repayment at par in order to obtain a higher price for state loans. The thing of fundamental importance is that consols be issued as little as possible. Then the rate on consols will rise of its own accord [Very true.] and we can refrain from resorting to the method of repayment at par.

Mr. SINGER. Gentlemen, we may agree with the gentleman who has just addressed us that it is not the Reichsbank's business to satisfy all demands for credit. But to my mind this question is quite irrelevant to the matter under discussion. [Quite right.] I am delighted to find that on this point there is general agreement; we can not advise the Reichsbank to curtail credits that appear well founded merely because they are applied for at the

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quarterly periods. And this is really the thing we have to consider.

At the quarterly periods our whole credit system, especially the credit system as applied to the borrowing of money, is always in a state of very great tension, not only at the Reichsbank, but in all business, trade, and industrial circles. The necessity of our being provided with means of payment is greatly increased at such times, and the consequence is that all offices that are available for this purpose have a great rush of demands made upon them. I believe that a great and unnecessary injury would result to our whole economic life if the Reichsbank were to restrict its granting of credits at the quarterly periods (I mean, of course, such credits as it would otherwise unhesitatingly grant). Therefore, I should answer in the negative the question of whether the credit granted by the Reichsbank at the quarterly periods should be diminished.

During the discussion a number of plans have been suggested which can, in my opinion, serve to alleviate the evils of the quarterly periods; but I can not believe that it is possible to introduce essential changes in the matter of rents, interest on mortgages, and such things. Here we have to reckon with habit. And incidentally I would point out that for making any such changes a change in several legal regulations would be necessary. The payments of interest are partly regulated by laws, and these laws would have to be altered if a new regulation were desired. Let me remind you of the civil code, of the commercial code, and of the industrial regulations, in which there are distinct provisions with regard to

payments, none of which could be changed by the Reichsbank.

Two gentlemen have touched upon a question that interests me very much; that is, the question of the payment of salaries in public offices. I do not think that the proposals for shifting the payment of salaries to ten or fifteen days before the end of the quarter is calculated to bring about any essential improvement in the situation; on the other hand, the proposal made by our colleague Mommsen is much more rational. I remember that we once had a discussion like this in the budget commission of the Reichstag; and on that occasion it was rightly asserted that there is nothing to prevent the public offices of Empire, State, and municipality from paying salaries in monthly installments, just as is generally done in private business. I do not think that any serious risk can be said to be involved, while, on the other hand, the work of the Reichsbank would be considerably facilitated. I think we should do well to pursue this idea.

Gentlemen, with regard to the suggestion that the demands for credit made upon the Reichsbank by the Imperial Government should be diminished, I am glad to have a chance to express my great satisfaction at finding that Freiherr von Gamp has shown a much more friendly attitude toward the idea to-day than he has done on other occasions. I have often declared in the Reichstag that I look upon it as an outrage that the imperial post-office should have its resources so very much weakened by the advances that have to be made to cooperative trade associations.

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Freiherr VON GAMP-MASSAUNEN. That is just what I say.

Mr. SINGER. To-day for the first time I find an approach toward my view being made from that quarter. At any rate, the circles in the Reichsbank with which Herr von Gamp is connected have not hitherto thought that we ought to strengthen the resources of the imperial post-office by freeing it from the necessity of making advances to trade associations. I consider this a very promising solution, and if Herr von Gamp will approach this suggestion on the understanding that the trade associations will receive compensatory privileges—a condition which, to be sure, I regard as unnecessary—he will perhaps find a solution of the problem of how we can strengthen at the same time to a considerable degree the resources of the imperial post-office and those of the Reichsbank. We can not recognize any necessity for compensating the trade associations in some other way for the loss of this privilege. The workmen's compensation act lays these charges upon the trade associations, and where in the world shall we find it stated that actual charges imposed by law are to be lightened by advances made by the Government or by a public office for the payment of these charges, advances which every year absorb the working capital of the Reichsbank to the extent of many millions? [Very true.] This is such an exorbitant demand that it is really astonishing that such an arrangement—a free gift to the industries—can possibly be in existence. If means are taken to effect a change in this system, the resources of the imperial post-office will be greatly increased, and at the same time a welcome relief will be afforded to the Reichsbank, since fewer

demands will need to be made upon it by the Government. This is why I am so pleased that Herr von Gamp is coming over to my point of view. I think that my proposal clears the way for introducing a marked improvement in the situation of the Reichsbank in this regard.

As for the question of the imperial treasury bills, I would leave the Reichsbank in full control of the matter, for I have no doubt that the acceptance and the sale of imperial treasury bills in the interest both of the Reichsbank itself and of the money market in general will be carried on as it should be in accordance with the needs of the Empire.

This, in brief, is my view as to the question under discussion.

Freiherr VON GAMP-MASSAUNEN. I am glad to find that on the important question of the treatment of the trade associations I am fully in accord with our colleague Singer. But if he had accorded a little more interest to the proceedings in the Reichstag, he could not have failed to know that I upheld this view in the Reichstag fully two years ago—though I must admit I did so without the agreement of all my friends. But that I can not help. Nor did I to-day speak of the suggested compensation as necessary, though this would be a consideration which might cause the trade associations to agree as to the payment of advances.

But with regard to the payments of salaries to officials the matter is not so simple. The private companies pay their men postnumerando and for them it is customary and perfectly right and practicable to pay salaries in the middle of the month instead of at the end. The case of state officials is different. Formerly we made a distinc-

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tion. There were officials who received quarterly salaries *prænumerando* and others who received monthly salaries *prænumerando*. This was because those who received quarterly salaries *prænumerando* had a claim for a quarter's grace, and the others for a month's grace. If the salary is paid on the 15th, difficulties may arise in case of death. But in any case the prepayment, in the case of the state, would be made half a month longer.

Nor would it be easy to manage to have the officials paid every month. This would at once triple the work of our offices. I have made the intermediate proposition that on the quarter day one month's salary be paid, and the next month two months' salary, for at the beginning of the quarter officials need a large part of their salary for rents, etc., which are collected quarterly. In my opinion this question should be inquired into in authoritative quarters. For ten years propositions in this direction have been made upon every occasion, and at last certainly some authority should occupy itself with the proposition, investigate it *ex profundo*, and declare either that the thing can be done or that it can't. I wish that the Reichsbank might bring this question to a conclusion.

I must say, further, that gentlemen have been talking as though the 31st of December were the critical day for all the bank offices. This is not the case. Out of over 90 places where the Reichsbank has offices there are only 15 for which the 31st of December is the worst day, and a few more for which the 20th or the 23d of December is the worst. We see that in a great measure, and especially in nearly all industrial centers, it is not the 31st of December that is the most critical day. It follows, too, from this

that I was perfectly justified in saying that industrial concerns are able in a great measure to avoid the difficult dates in their applications for credit.

If I understood Herr Kaempf correctly, he found fault with me for asking that the Reichsbank place at the disposal of our industries the working capital which they need. I should like him to tell me where I ever made any such foolish utterance. On the contrary, both here and at the hearings of the experts, I supported the Reichsbank in its endeavors to limit unsound credits. I expressed my thanks to it for the measures which it has just carried out. Surely there is a certain degree of justice which each of us has a right to demand of his colleagues. But that you should hold up to me in reproach a thing that I have never thought, a thing that on the contrary I have decidedly opposed—this, I must confess, I do not find handsome.

Herr Kaempf said that I had demanded that the Reichsbank should grant the desired credits under all circumstances. On the contrary I declared myself decidedly opposed to the demand put forward by Herr Geheimrat Müller, of the Dresdner Bank, that the Reichsbank should *under all circumstances* grant credit to the private banks at the difficult dates, and held that it should do so only in case this was consistent with the state of its cash, and involved no injury to general interests. But whenever the Reichsbank limits credit, it should begin the limitation with the big people, not with the little people. I am sure Herr Kaempf, too, will recognize this as proper.

Our colleague Mommsen I have not been able to understand at all. He regards it as objectionable for a bank

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to require collateral security on a bill. Yet such a bill may be the safest possible. Private banks adopt this course under certain circumstances, taking a deposit of collateral even from the safest man if he is in a position to furnish it. However, as a practical matter, the question is so unimportant that I will not go into it any further.

Of course, as I have already said, I insist that bank notes should not be forced into circulation any more than silver should be forced. I think that our colleague Kaempf will have to come to the same conclusion with regard to the bank notes, especially the small bank notes, as he has come to with regard to silver—that they should not be issued in greater numbers than business is willing to take. [Very true.] Here, too, I make a note of a happy agreement of opinion. At every opportunity I try to lay stress upon our points of contact, while you are always concerned with the points of divergence.

Gentlemen, I shall now take up the subject of loans on security in critical times. You have been told by a prominent authority on banking—Herr Roland-Lücke—that the matter is not quite so simple as it was represented by our colleague Mommsen; it is not clear, that is, that business at the quarterly periods can not by any means be relieved, and, for that matter, need not be relieved. Herr Roland-Lücke says rightly that the thing works well just now; but that times may arise when a greater safeguard is needed at the difficult dates. This is the view of the Reichsbank also, for the Reichsbank has repeatedly made changes in its regulations. And I must insist that there is no ground for the fear expressed in several quarters that, if a heavier charge is laid upon

credits at the quarterly periods, the inevitable result will be that short-time loans will become long-time loans. [An interruption.] Yes, you said that in that case the short-time loans on security would be replaced by bills. This might be the result if the term for which interest is counted were increased from ten days to twenty or thirty days. But if a higher rate of interest is charged for these credits during the difficult period, the debtors will make great haste to pay what they owe as soon as possible.

A VOICE: The only point in question is whether the number of days for which no interest is charged^a shall be increased.

Freiherr von GAMP-MASSAUNEN. Pardon me; this is not the only point in question.

A VOICE: It is so stated in the question sheet.

Freiherr von GAMP-MASSAUNEN. That makes no difference; we are not obliged to discuss only those questions which are asked in the list. Many of the experts pointed out—and I agree with them—that it would be much more effective to increase the rate of interest than to increase the number of days free of interest.^a Perhaps our colleague Mommsen is also in favor of this plan.

Mr. MOMMSEN. No, I am not in favor of increasing the rate of interest.

Freiherr von GAMP-MASSAUNEN. Finally I should like to observe that my view as to the granting of reduced rates of interest on loans secured by imperial or state paper has undergone some change. I used to think it unjust that paper which I consider at least as safe as imperial

^a The speaker meant to say "days for which interest is charged."—TRANSLATOR.

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and state paper—namely, mortgage debentures of the *Landschaften*, backed by the whole State with its domains and forests, and especially those of East Prussia—should be placed at a disadvantage in comparison with imperial and state loans. But I must admit that the removal of this privilege has had very unfortunate—and, so far as I am concerned, unforeseen—consequences. I am convinced that the discontinuance of this facility had the effect of depressing the price of imperial paper, and I urge that the question be looked into once more, so that no fault may afterwards be found; I would limit the privilege to imperial loans.

A VOICE. State loans?

Freiherr von GAMP-MASSAUNEN: No; not state loans. The Hamburg loan, for example, is a state loan. If we are to avoid appeals, we can take in nothing but imperial loans. We have enough imperial debts to satisfy the needs of the loan business. [Laughter.] If it is true that a rise in the market price of imperial loans would bring about at the same time a rise in that of mortgage debentures, the same thing may be expected in the case of state loans. Bringing in state loans complicates the question. Small States and their loans cannot be put on a higher footing than our mortgage debentures.

For the present I confine myself to this suggestion. I consider it by all means desirable that this question be further investigated, with the assistance of a greater number of representative persons. The advantage which attaches to the papers of the *Landschaften* and similar papers through the circumstance that the market price of these papers rises along with that of imperial loans

when money can be raised on the security of the latter at a reduced rate, will cause many to desist from making any further objections to this measure.

Mr. KAEMPF. I wish to say just a word in order to remove the impression of my having intended to say anything calculated to irritate Freiherr von Gamp. I explained my fundamental conviction that the Reichsbank is not called upon to place working capital at the disposal of trade, industry, or agriculture. In this connection I mentioned the name of our colleague Freiherr von Gamp, and I mentioned it also in connection with the suggestion made by him that in certain cases bills should be made to fall due on December 15, that the credit with the Reichsbank then remain unused until January 15, and that it be again drawn upon from January 15 on. On that occasion I cited Freiherr von Gamp; it is impossible that this can have offended him.

The CHAIRMAN. Does anyone wish to take the floor to discuss this matter further? No; then we are through with it, and I have only to give the floor to Herr Geheimrat Riesser on the order of the day.

Doctor RIESSER. Your excellency and gentlemen, I am acting in accordance not only with the instructions I have, to my great satisfaction, received from the commission, but also in accordance with my own heartfelt wish, when, at the close, for the present, of this exceedingly interesting but also very wearing discussion, I express the very warm and sincere thanks of the commission to our honored chairman and vice-chairman and also to the chairmen of the two subcommissions. [Bravo!] You, President Heiligenstadt, have in the course of our sittings been

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awarded the title of *Wirklicher Geheimrat* with the addition of *Excellenz*. I know that I am voicing the thought of the entire commission when I say that this event gave us all particular pleasure, because we felt that whereas very frequently this distinction represents—to use a legal phrase—a constitutive act, in this instance we have merely a declaratory act, one that has only formally and externally recorded and declared that the designation *Excellenz* constitutes in this case the fitting expression for the preeminent merits of a man who has long been tried and tested. [Bravo!] Our congratulations on this occasion are accompanied by our hearty thanks for the careful, impartial, and on all sides exceedingly helpful guidance of our discussion, as well as for the rich store of knowledge from which we have drawn, for the thorough preliminary handling of the subjects presented to us, and for the penetrative analysis which has been made during the course of the session by you and your associates, and which has greatly aided the progress of our deliberations.

If we all leave to-day with the feeling that we have not only imparted our views to each other, but have also learned an immense amount from each other and from the experts, then we must think first of all with gratitude of our untiring chairman, whose work at the head of the Reichsbank we shall henceforth have greater cause than ever to follow with the fullest confidence. [Enthusiastic applause.]

The CHAIRMAN. Gentlemen, I thank you heartily for the great good will which you have expressed toward me, as well as toward the chairmen of the subcommissions, through the speech of our esteemed Herr Geheimrat

B a n k I n q u i r y o f 1 9 0 8

Riesser. Let me show my gratitude by expressing my particular pleasure and satisfaction over the course of our whole proceedings—my pleasure in the fact that you have all conducted these proceedings on the basis of the most perfect impartiality and unprejudiced inquiry into facts, and that you have thus not only greatly lightened the task of the chairmen, but have above all made your counsel so much the more valuable both for the Bundesrat and for us of the bank administration. For this, gentlemen, I thank you. But I hope, too, that you will leave this bank inquiry, which we are now closing for a time, convinced that the Reichsbank still desires and endeavors, as it has always done, to guide its policy solely with a view to the interests of the whole nation, the interests of our entire economic life, not with a view to particular interests; and that it still tries throughout the range of its activity to fulfill its function of being the great regulator of the currency and the country's final source of credit.

Gentlemen, a few days before I entered upon my duties I expressed in the Reichstag my conviction that, where there is this common wish to serve the cause and promote the interests of the community, a way is sure to be found of making a good bit of useful progress together, notwithstanding diverging opinions on details or even different views on large questions of economic policy. Gentlemen, the proceedings of our bank inquiry have, to my great delight, served only to strengthen my conviction, and I hope that the proceedings of the Reichstag with regard to the supplementary bank act will be governed by the same spirit. But I hope, too, that from these inquiry proceedings the conviction will be established still more firmly

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that the general lines and basic structure of our Reichsbank constitution are well laid out; that the only thing we have to do is that which one must do to every human institution which is not at a standstill—to strengthen and develop it, to put up a new pillar and strengthen the walls here and there, so that it may still be able to withstand all storms, and to adapt it more and more accurately to the needs of business and of our national economic life; and that the aim should always be not to tear down, but to build up. [Very true.] And if our bank inquiry has this effect, the credit will belong chiefly to you, gentlemen. I thank you again for your careful work, for your resourcefulness and good counsel, and for your perseverance.

At this point I will bring our deliberations to a close for the present. For the last passage at arms, which lies outside the limits of our comparatively narrow banking policy, I expect to call upon you again when the time comes.

(Close of session, 12.30 p. m.)

Flotations in Germany according to the determinations or estimates (a) of the Frankfurter Zeitung and (b) of the Deutscher Ökonomist of W. Christians.

(a) OF THE FRANKFURTER ZEITUNG.

[In millions of marks.]

Kind of securities.	1907.		1906.		1905.		1904.		1903.		1902.		1901.		1900.	
	Face value.	Market value.														
German state loans.....	546.00	541.06	668.00	668.97	454.00	454.68	285.00	283.87	348.00	343.36	575.00	532.82	554.95	506.01	187.30	172.50
Foreign state loans.....	51.11	49.83	169.32	163.61	724.21	676.39	100.76	87.24	144.12	136.25	344.35	313.47	68.30	42.06	44.70	30.94
Municipal and provincial obligations.....	505.57	496.66	431.23	429.79	421.36	418.45	217.08	216.77	342.86	340.48	419.95	416.44	354.47	352.05	322.70	318.16
German mortgage-bank obligations.....	287.24	287.24	359.74	359.74	513.02	513.02	467.38	467.38	461.59	461.59	373.00	373.00	292.00	292.00	270.00	270.00
Foreign mortgage-bank obligations.....			6.75	6.77	5.62	5.62	21.87	21.34	29.33	29.39	6.75	6.73	7.87	7.57	7.24	7.12
Other obligations.....	172.84	172.96	258.07	257.29	333.15	331.31	203.59	199.24	258.53	256.67	211.74	211.54	448.58	441.83	199.94	201.15
Bank shares.....	81.96	107.31	206.24	289.77	151.99	203.44	136.55	201.45	26.32	33.06	39.20	61.46	29.09	37.13	115.03	147.74
Railroad and street railway shares.....	3.61	4.70	37.35	42.46	6.80	11.06	70.78	68.91	89.61	116.31	21.55	22.53	23.57	26.23	65.12	68.18
Industrial shares.....	164.66	240.20	440.74	624.28	327.30	492.52	192.58	267.60	135.14	195.33	81.21	94.36	76.04	103.82	254.44	367.90
Total.....	1,812.99	1,899.96	2,577.44	2,842.68	2,937.45	3,106.49	1,695.59	1,813.80	1,835.50	1,912.44	2,072.75	2,032.35	1,854.87	1,808.70	1,466.47	1,583.69

(b) OF THE DEUTSCHER ÖKONOMIST OF W. CHRISTIANS.

GERMAN PAPERS.																
State loans.....	551.00	546.22	637.00	638.11	428.80	429.66	343.00	335.64	340.00	317.63	580.00	536.40	554.00	505.57	216.30	200.40
Municipal loans.....	430.86	425.44	346.83	347.00	258.83	257.40	242.63	239.48	214.14	208.56	197.89	196.13	294.37	293.58	222.38	220.35
Mortgage debentures.....	326.33	326.33	404.59	404.59	569.49	569.49	506.24	506.24	564.72	564.72	411.04	411.04	210.50	210.50	126.10	126.10
Railroad obligations.....	1.00	.99	9.50	9.02	12.00	11.81	8.60	8.52	2.00	1.94	8.77	8.71	14.99	14.81	88.70	85.02
Industrial obligations.....	170.90	172.79	182.27	183.10	114.06	115.24	109.14	110.14	65.16	64.96	164.25	158.10	189.31	193.29	178.20	178.77
Railroad shares.....	.61	.62	1.70	2.16			3.50	3.83	3.99	3.43	43.90	48.01	2.91	3.02	49.60	55.63
Bank shares.....	108.89	152.49	184.19	282.19	116.83	146.50	129.47	196.51	46.61	67.57	81.45	114.33	30.60	36.36	138.04	174.51
Shares of insurance companies.....	3.06	3.06	1.50	1.86			2.38	2.80								
Industrial shares.....	284.14	431.32	389.94	652.80	309.18	552.09	234.27	359.80	155.28	195.32	160.40	184.47	116.05	155.18	297.47	461.06
Total.....	1,876.79	2,059.26	2,157.52	2,520.83	1,809.19	2,082.19	1,579.23	1,762.96	1,391.90	1,424.13	1,647.70	1,657.19	1,412.73	1,412.31	1,316.29	1,501.84
FOREIGN PAPERS.																
State loans.....	80.80	78.03	37.50	36.21	866.30	711.13	105.09	99.15	88.16	80.77	367.54	339.00	37.50	29.26	185.20	168.36
Municipal loans.....			20.00	18.79					36.50	35.32	62.96	61.22	13.82	12.86	3.00	2.85
Mortgage debentures.....	4.00	3.80	6.75	6.75	20.00	19.40	42.05	39.51	8.74	8.75	6.29	6.16	8.36	7.16	5.63	5.50
Railroad obligations.....	34.00	32.46	49.69	48.18	206.82	202.13	47.75	47.77	87.93	83.44	29.82	29.30	156.59	149.73	10.00	9.00
Industrial obligations.....			4.00	4.16	41.00	41.67					3.27	3.20	1.00	.97		
Railroad shares.....	8.00	15.03	30.00	34.65	46.20	74.34	20.00	17.20	12.60	16.95	4.72	6.68			58.96	65.06
Bank shares.....	16.05	23.34	24.25	38.13	26.00	30.62	12.85	18.15	12.00	16.44	6.75	7.43	6.00	9.00	14.00	20.90
Industrial shares.....			22.88	33.78	12.00	29.20	8.60	10.33			.51	.51	2.56	1.85	3.60	3.60
Total.....	142.85	152.66	195.07	220.65	1,218.32	1,108.49	236.34	232.11	245.93	241.67	481.86	453.50	225.83	210.83	280.39	275.27
Grand total.....	2,019.64	2,211.92	2,352.59	2,741.48	3,027.51	3,190.68	1,815.57	1,995.07	1,637.83	1,665.80	2,129.56	2,110.69	1,638.56	1,623.14	1,596.68	1,777.11

^a These statistics include all newly issued shares, obligations, and mortgage debentures, the amounts being those officially placed upon the market. They do not include conversions, securities placed without recourse to the official market (except when they have been advertised in the public press), mere introductions of securities already quoted in German bourses, or those new securities which make no demand on the money market inasmuch as they serve merely for the acquisition, by a process of exchange of the shares, etc., of another undertaking. The portions of foreign issues placed in Germany are estimated.

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